Your financial PARTNER™ Guidebook

Helping you achieve and maintain financial stability, security, and freedom

Develop a Sound Financial Plan to Guide You Through Life’s Events

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Your financial PARTNER™ Guidebook

The Personal Financial Management System

Helping You Achieve Financial Stability, Security, and Freedom
In preparation of this publication and forms set, every effort has been made to offer the most current, correct and clearly expressed information possible. Nonetheless, inadvertent errors can occur, and tax rules and regulations often change.

Further, information in the text is intended to offer general guidelines on matters of financial planning and management to everyone. The application and impact of tax laws and financial matters can vary widely, based upon the specific or unique facts involved. Accordingly, information in this book is not intended to serve as legal, accounting, or tax advice. Readers are encouraged to consult with professional advisors concerning specific matters before making any decision, and the author and publishers disclaim any responsibility for positions taken by taxpayers in their individual cases or for any misunderstanding on the part of readers.

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My Estate Planning Organizer™ — Your Financial Organizer™ (YFO™)

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Your financial PARTNER University / College Program™

The Financially Green Organization Certification Program™

A Financially Green Organization means “doing the right thing financially” for employees, members, students, faculty and administrative personnel, alumni, municipality residents, customers, prospects, and the general public while actively supporting and working toward improving financial awareness and financial literacy.

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The Financial Awareness Foundation

A 501(c)(3) Nonprofit Organization Dedicated to Significantly “Improving financial awareness & financial literacy”™

The Financial Awareness Foundation serves as a nonpolitical “financial awareness advocate” for the public, the financial service and nonprofit professionals and their organizations, educational institutions, municipalities, and employers.

Our mission is to significantly help solve a major social problem dealing with the lack of financial awareness and financial literacy. We believe that teaching financial literacy and the key essential principles to smart personal financial management are very important. This gives people the tools to address everyday money decisions in a more informed manner and have the best possibilities to reach and maintain their personal and financial goals, financial freedom and security, while advancing their personal philanthropy.

We are taking an active leadership role to recognize the thought leading organizations and their professionals that are championing improving financial awareness and financial literacy. We are uniting them with other financial service and nonprofit organizations and their professionals, educational institutions, municipalities, and employers to actively focus their vast community resources into a concentrated personal finance content media blitz every six months through the strategic venues of National Financial Literacy Month (April) and 6 months later during National Estate Planning Awareness Month/Week (October).

Further we deliver and develop exceptional educational content to the general public and to financial service and nonprofit professionals, and educational institutions that support the public’s financial and estate planning and charitable planning needs.

The Foundation is hard at work to become the ‘foundation of choice’ for improving financial awareness and financial literacy for the general public, and amongst financial service and nonprofit professionals and their organizations, educational institutions, municipalities, the news media, and employers.

We hope your will enjoy and find the following materials valuable and helpful to you and your family. If so please help us do more by making a tax deductible contribution to us at http://home.thefinancialawarenessfoundation.org/donationgateway.html.

To learn more about us and our improving financial awareness and financial literacy movement, campaigns and programs, and ‘how you can make a meaningful difference’, and to sign up to our mailing list, visit us at www.TheFinancialAwarenessFoundation.org. For additional information or to discuss volunteer activities, sponsorships, planned gifts, and contributions and grants to The Financial Awareness Foundation, please contact us directly.

Thank you for your consideration and we wish you all the very best.

Your financial PARTNER
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“Essential principles to smart personal financial management: A collection of financial doctrines that pertain to the eleven components of personal financial management: paperwork, net worth, cash flow, employment benefits, goals, financial independence / retirement planning, major expenditures planning, investment planning, tax planning, insurance planning, and estate planning.”

Your financial PARTNER

“Learning, understanding, and using the essential principles to smart personal financial management are very important as it gives you the tools to address everyday money decisions in a more informed manner.”

Your financial PARTNER
If you’ve ever wanted to have more control over your finances, to feel more secure about your economic future, to make the most of the income and assets you have, you now have the tools to accomplish all that right here in your hands.

Using financial PARTNER could change your life. Why? Because financial PARTNER is much more than just another source of financial advice. It is a complete personal financial management system, a clear, step-by-step process designed so that you can put all the essential principles of smart financial management into action, immediately.

Managing your personal finances today is more complicated—and also more important—than ever before. The Baby Boomer generation is living longer, but saving proportionately less. Many of us feel less secure in our jobs and homes than our parents did. We watch our money being drained by the high cost of housing, taxes, education, and health care. And we worry about the future, or simply try not to think about it!
These days, sound financial management means much more than budgeting and putting money away for retirement. It means being equipped to handle a lifetime of financial needs and changes, figuring out how to build assets and stay ahead of inflation, and choosing from a constantly widening field of savings, investment, and insurance options. When it comes to finances, people are now faced with more pressure and more possibilities than ever before.

The good news is that, as complex as today’s financial world may be, there’s no real mystery to personal money management. Nor do you necessarily need a finance or accounting degree to get ahead of the game. What you do need are some solid, basic principles of organization and decision making plus the willingness to put them into action.

If you supply the motivation, your financial PARTNER can supply the rest so you’ll never have to hunt for a birth certificate, product warrantee, or insurance policy again! financial PARTNER is a comprehensive management system that strengthens and builds on whatever approach you’ve used so far.

Perhaps you’ve already made a serious effort at money management, but wonder if there’s something missing.

Maybe you have a good system for handling bills, but haven’t had much chance to think ahead. Or maybe financial management is something you’re just starting to think about. Almost everyone, no matter what their age, income, or level of financial sophistication, can do more to define and help realize their financial goals.

With financial PARTNER, you can end the worry and indecision, and start having more control of your financial environment. When you begin working with financial PARTNER, you’re taking an important step toward your stability, security, and success.
Some Questions to Ponder

Managing your personal finances today is more complicated—and more important—than ever before. Let’s see how you are doing with a quick personal financial checkup. Answer Yes or No to the following questions. Then total your answers below.

1. **PAPERWORK**  In an emergency, could someone in your family quickly find your important papers—birth certificate, bank account records, health care and insurance policies, credit card records, will, etc.? ........................................... YES NO
2. **NET WORTH**  Do you know your current net worth? ..............................................................
3. **CASH FLOW MANAGEMENT**  Do you have enough cash available (in bank accounts or easily cashed securities) to cover yourself and your family for at least six months? ............................................................
4. **BUDGET**  Do you and your spouse have a useful, written monthly budget? .............................................
5. **EXPENSES**  Do you think you will be able to pay all your bills on time every month for the next 12 months? ...........................................................................................
6. **EMPLOYMENT BENEFITS**  Do you understand and, if appropriate, utilize all your employment benefits? ............................................................
7. **GOALS**  Have you created written personal and financial goals for yourself and your family? ............................................................
8. **FINANCIAL INDEPENDENCE/RETIREMENT**  Do you know at what age you expect to be able to retire comfortably? ............................................................
9. **FINANCIAL INDEPENDENCE/RETIREMENT**  Do you know how much income and assets you will need to enjoy your retirement years? ............................................................
10. **FINANCIAL INDEPENDENCE/RETIREMENT**  Have you calculated the amount of money required to reach your goals? ............................................................
11. **MAJOR EXPENDITURES**  Have you thought about and made a list of major expenditures you can expect over the next five years and where the money will come from to pay for these major expenditures? ............................................................
12. **INVESTMENTS**  Do you think your current investment plan(s) will meet your retirement needs? ............................................................
13. **TAX DEFERRAL**  Do you think you are making the best use of tax-deferred investment plans for retirement? ............................................................
14. **TAXES**  Do you know your federal, state and local income tax rates on your last earned dollar? ............................................................
15. **INSURANCE**  Do you think you have the right amount of insurance—life, health, disability, long-term-care, auto, home/renter’s, etc.—not too little, but not too much? ............................................................
16. **ESTATE PLANS**  Do you and your spouse have current wills? ............................................................
17. **POWER OF ATTORNEY**  Do you and your spouse have a current Power of Attorney ............................................................
18. **ADVANCE HEALTH CARE DIRECTIVE**  Do you and your spouse have a current Advance Health Care Directive? ............................................................
19. **CHARITABLE**  Are nonprofits included within your estate plan for a bequest, planned gift, or as a primary or alternate beneficiary for life insurance or retirement plans? ............................................................
20. **TRUSTS**  Do you know the advantages and disadvantages of using trusts? ............................................................

TOTAL ___ ___

YES NO
How Did You Do?

For questions 1 to 20 on the previous page, count up the number of “yes” answers.

16–20 Financially astute
11–15 Financially aware
6–10 Not current with your finances
0–5 Finances are managing you

Most people score in the 7–9 range! How did you do?

- Over 50% of our adult population does not have a current or up-to-date estate plan to protect themselves and their family’s assets; that’s half your family, friends, and associates.
- We have enter into the greatest wealth transfer in history. An estimated $59 trillion - divided among heirs, charities, estate taxes and estate closing costs - will be transferred from 116 million American households from 2007 to 2061. Without some financial and estate planning a significant amount of these assets will be wasted; much of the remaining assets may not go to the right person(s) or organization(s), and or may not be used as intended.
- Get and keep your estate and financial plans up-to-date; encourage your family and friends to do the same.
“People are always blaming their circumstances for what they are... The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them.”

George Bernard Shaw
You don’t need any special talents or skills to manage your finances. Anyone with a basic education and the desire to handle their money wisely can do so. But effective financial management does involve certain procedures that you don’t automatically learn from your parents or associates—and are seldom taught in school. It’s not even a matter of gathering enough information. In fact, for many people, the constant bombardment of economic news, financial advice columns, and investment product advertisements is part of the problem. Information overload can be a major obstacle to sorting out choices and making wise decisions.

Above all, financial management is a process, and giving you the keys to that process is what financial PARTNER is all about. As you go through the steps outlined here, you’ll see that they are straightforward and easy to put into action. They center on learning the essential principles of smart financial management, staying aware of money issues, getting and staying organized, and on making deliberate choices about the ways you spend, save, and invest instead of following your emotions or simply “going with the flow.” financial PARTNER will show you how you achieve a whole new level of financial control and do it painlessly.
Do I Need a Lot Of Money to Make Financial Planning Worthwhile?

Many people think that financial management and planning should wait until they have “enough money.” But good financial management is necessary to anyone who cares about their economic survival and security.

If you have a modest income or a small or nonexistent nest egg, you need strategies for steadily building your assets, so that you won't have to risk outliving your money. With limited financial resources, having the know-how to avoid costly mistakes is especially critical. If you have more to work with, you also have potentially more to gain; even small improvements in your money management can translate into substantial dollar amounts in savings or investment return. And if you have amassed assets, you have an even wider array of issues and choices to consider.

As financialPARTNER will show you, it is both possible and essential for all of us, regardless of income level, to organize, plan, and manage our money effectively.

What About the Things I’m Already Doing?

If you've got parts of a financial management system in place, good for you! You're just that much further ahead. financialPARTNER can complement the steps you're already taking, helping you to see which bases you've covered and where there might be gaps in your approach. It will also help you learn how to leverage and add value to your current efforts. For example, if you handle your bills and checking account with software, you can use that data to build cash flow projections.

financialPARTNER isn't a substitute for personal consultation and advice from professionals such as accountants, attorneys, insurance agents, stockbrokers, and financial planners. But if you have professional advisors or decide to retain them in the future, financialPARTNER will help you work with them more effectively. This system will equip you to ask the right questions, prepare you with the right information, and allow you to evaluate the service you're getting. Consequently, you will save significant time and money when employing professional advisors.
**Getting Acquainted**

*financialPARTNER* is a Personal Financial Management System with several components:

1. This Guidebook is the key to the process, leading you through a series of actions that will help you strengthen your financial position and learn new management skills. The Guidebook is divided into two parts: Part I. Getting Organized and Part II. Financial Planning. Within the Guidebook you will find:
   - The essential principles of smart financial management
   - Useful financial strategies and tips
   - Tools to get and stay financially organized
   - An introduction to the financial planning process
   - Sample forms and worksheet with step-by-step instructions
   - A glossary of financial terms

The Table of Contents also serves as an action checklist where you can mark off completed actions, record the progress you’re making, and quickly find the next items on your agenda.

Throughout the Guidebook you’ll find numerous tips and ideas, checklists and information. This valuable data is often accompanied with a check box, like this □, for you to check if it’s applicable to you.

2. A collection of forms and worksheets are included, some of which apply to your current financial circumstances. Those forms not currently used should be retained for possible future use. You will find directions for filling out the forms on the forms or in your Guidebook, including partially completed samples of many of the forms. For easy reference, see the Action Forms Directory following the Table of Contents.

3. Your *Financial Organizer* is a portfolio specially designed and indexed to hold your most important personal and financial documents and forms. (Optional)

**How Do I Begin?**

You do not need any special knowledge of accounting or financial planning to use this system. Your *financialPARTNER* will show you what steps to take, guiding you through the financial world with ease while teaching you the *financialPARTNER* planning process along the way.

Unlike with many financial planning programs, you do not need to know how to use a computer or even have access to one.
Look for financialPARTNER Icons

As the action steps guide you through the various tasks outlined in your Guidebook, look for the following icons, or graphic symbols, which point out additional kinds of information included.

**Form Instructions:** Step-by-step instructions in the text explain exactly how to fill out the forms.

**Glossary Terms:** Key terms are defined briefly the first time they are used in the text. Full definitions appear in the Glossary at the end of the book.

**Key Essentials:** This icon designates the end of a section and notes the Essential Principles of Smart Personal Financial Management that you should have received from this section.

**FP System:** The financialPARTNER six-step process for doing financial planning is outlined.

**Tips & Ideas:** Financial planning tips and ideas help improve your finances.

**Common Mistakes to Avoid:** These are items that can cause you big financial problem.

How Is financialPARTNER Organized?

The financialPARTNER Personal Financial Management System is divided into two parts: Getting Organized and an introduction to Financial Planning. The diagram shown below is a representation of the financialPARTNER system.

---

Part I — Getting Organized

Represented by the circle on the left in the diagram above, Part I guides you through four primary activities to prepare you for the financial planning process:

**CHAPTER 1: Organize Your Paperwork** — Everyone has documents, paperwork, bank statements, digital files and notes. This information is often disorganized, and seldom is it processed together. This chapter shows you how you can organize your paperwork using a set of user-friendly forms or software, along with the Financial Organizer and your own easy-to-use Personal Filing System.
CHAPTER 2: Know Where You Stand — Here, you will inventory what you own and what you owe, and create your own personal Net Worth Statement.

CHAPTER 3: Gain Control of Your Cash Flow — Managing your money is a way to gain power over your life. This chapter provides you with helpful tools for tracking what you earn and spend, along with money-saving and money-making techniques.

CHAPTER 4: Make the Most of Your Employment Benefits — Taking full advantage of your employment benefits is an important part of managing your cash flow. Any amount your employer contributes toward your health insurance, life insurance, retirement, and other benefits is money you may not need to spend on yourself or family. This chapter helps you record, track, and make the most of your benefits.

Part II — FINANCIAL PLANNING

Represented by the circle on the right in the diagram on the previous page, Part II addresses each of the six major areas of personal finance, as shown. But before you explore these topics, the Introduction to Part II will show you the simple but powerful financialPARTNER six-step process that will help you approach financial planning in a systematic way.

The chapters in Part II cover each of the following financial planning topics in detail:

CHAPTER 5: Goal Setting — Before you begin the financial planning process, you will be asked to record both your personal and financial life goals. Don't skip this key element of financial planning, as it affects all your decisions and choices. Then, as the first step in the financialPARTNER six-step process, you will review your goals in each financial planning area.

CHAPTER 6: Financial Independence & Retirement Planning — A comfortable retirement, perhaps at an early age, is one of the most common reasons people become interested in financial planning. This chapter will show you how to plan for your future years, including how to achieve and maintain a level of financial independence.

CHAPTER 7: Major Expenditures Planning — A home, a car, your child’s college education - these are all “big ticket” items that are best planned for before you have to pay the bill. This chapter will show you how financial planning can ensure that you achieve your biggest objectives.

CHAPTER 8: Investment Planning — For most of us, wise investing is the key to achieving financial independence, as well as our other financial goals. This chapter will show you how to establish your investment goals, assess your risk tolerance, and select an asset allocation model that best fits your style.

CHAPTER 9: Tax Planning — Your financial planning should include tax considerations, regardless of your level of wealth. Opportunities for minimizing tax obligations are available to anyone willing to take advantage of them, as this chapter will show.
CHAPTER 10: Insurance Planning — This chapter will help you understand how life insurance and property and casualty insurance can protect your family and your assets.

CHAPTER 11: Estate Planning — If you, or your spouse or partner gets very sick or injured or die without an estate plan, the management and distribution of your assets can become a time-consuming and costly problem for family and survivors. This chapter will teach you the core principles of estate planning and how to minimize taxes and other related costs.

Planning for Life

You will notice that the financial PARTNER diagram is an “infinity” symbol, representing a continuous cycle. This is to emphasize that financial planning is a lifelong process.

Once you’ve completed your financial PARTNER, it will be simply a matter of reviewing your financial information on a regular basis and updating any items that may have changed. In this way, you’ll have a clear picture of your financial well-being at your fingertips.

An Answer, and a Beginning

financial PARTNER is designed to provide you with a complete Personal Financial Management System. When you’ve gone through the financial PARTNER process, you will find yourself at a new beginning — the start of a learning process which can lead you as far and in as many different directions as you want.

To help keep you current with financial planning information, on the following page you will find a simple registration form to fill out and send to us, or you can complete it and make it into a PDF and email it to us at admin@TheFinancialAwarenessFoundation.org
Register today to receive these additional benefits

financial PARTNER update notices
Information on new financial planning products & services
Complete and return this registration today

By mail to: The Financial Awareness Foundation 707.586.8620
959 Golf Course Drive #273
Rohnert Park, Sonoma County, CA 94928

By fax to:

Name (please print): First __________ Last __________
Occupation ____________________ Age _______
Marital Status ____________________ Number of Children _______
Address ________________________________________
City __________________ State ______ Zip _______
Phone (day) (__) __________________ (evening) (__) __________________
Fax (__) ___________________________ Email __________

How did you learn about financial PARTNER? ________________

From whom did you obtain financial PARTNER? ________________

☐ I would be interested in receiving a periodic financial newsletter offering current information on changes in tax laws, the latest in investment options, recent market trends, and answers to some of today's most challenging financial questions, as well as special offers on in-person and online seminars, and software.

☐ Please send me information on new products/services related to:
  ☐ Getting Organized
  ☐ Financial Independence & Retirement Planning
  ☐ Major Expenditures Planning
  ☐ Investment Planning
  ☐ Tax Planning
  ☐ Insurance Planning
  ☐ Estate Planning
  ☐ Life Events
  ☐ Shopping for Financial Products & Services
  ☐ Other ________________________________

☐ What are your expectations from the financial PARTNER Personal Financial Management System?

☐ I subscribe to the following online services:

☐ I am interested, but have been unable to find, personal finance information on ________________________________

User Profile

(Number of members in family ________)

Family Income:
☐ Under $40,000  ☐ $40,000-$75,000  ☐ Over $75,000

Family Net Worth:
☐ Under $100,000  ☐ $100,000-$400,000  ☐ Over $400,000

Retirement Plan:
☐ Have not begun a plan  ☐ Do not need to plan  ☐ Have a plan

Investments Owned:
☐ Stocks  ☐ Bonds  ☐ Mutual Funds
☐ Real Estate  ☐ Annuities  ☐ Business

Tax Return Preparation:
☐ Use paid preparer  ☐ Use software  ☐ Do manually

Insurance Owned:
☐ Life  ☐ Disability  ☐ Medical  ☐ Long-term Care
☐ Vehicle  ☐ Homeowner’s  ☐ Liability Umbrella

Estate Planning — I/We have current up-to-date:
☐ Wills  ☐ Trusts  ☐ Powers of Attorney

You can email your registration to admin@TheFinancialAwarenessFoundation.org
The Future Starts Right Now

No matter what your financial situation is today, you can improve your financial future by taking action now.

Your financial PARTNER is here to guide you and help keep you in control of your finances. With its help, you will learn a complete personal financial management system—a clear, step-by-step process designed to enable you to put all the essential principles of smart financial management into action for you.

You will learn the key essential principles of smart financial management and to coordinate all the major components of your comprehensive, personal financial management system.

- Organize your paperwork
- Get an accurate picture of your net worth
- Use a workable cash flow management system
- Save money with cost-cutting and money-making strategies
- Learn how to make the most of your employment benefits
- Define what really matters to you
- Understand the financial planning process
- Begin investing for Financial Independence/Retirement (FIR) and for major expenditures
- Begin planning for major expenditures
- Implement your tax-reduction plan
- Purchase only the insurance you and your family need
- Create and keep your estate plan current
- Keep an updated Things to Do List
- Keep a financial calendar for action dates
- Track and monitor your financial plans

*Turn the page and enter a whole new phase of your financial life.*
“Early in my career I felt that organization would destroy my creativity. Whereas now, I feel the opposite. Discipline is the concrete that allows me to be creative.”

VERNA GIBSON
Part I

Getting Organized

financial PARTNER®
“One of the advantages of being disorderly is that one is constantly making exciting discoveries.”

A. A. MILNE

“What Creates Clutter? ... my perception is that at a basic level, there is really just one flaw: a failure to systematize common decisions. Whenever I leave things lying out, it’s because I’m not ready to decide what to do with them yet. So the process of organizing really comes down to having a system for automating decisions about where everything goes. Disorganized people have few or no systems, so they must make every decision on a case by case basis. Eventually this becomes overwhelming, and clutter begins to pile up. Organized people will make far fewer decisions in the long run. It takes far more time to be disorganized than it does to be organized because disorganized people lose so much time to inefficiency.”

STEVE A. PAVLINA
To get and keep your financial house in order is an important ongoing household task, but in these changing financial times it’s particularly important. With all the financial uncertainties you want your important paperwork and digital files readily accessible.

Good organization is the foundation for making wise fiscal decisions. Even with the help of technology, we still have to deal with a rising mound of personal and financial paperwork.

Paperwork starts with our birth certificate and keeps getting bigger and more complex with each coming year. Bills, statements, medical records, taxes, kids’ SAT scores, warranties and receipts — the flow of information can easily seem overwhelming, especially when scattered files or critical pieces of paper go astray. And who has time for long-term planning when there are bills to pay and last year’s tax records to get ready for the tax preparer?

Investing a little time now to set up or fine-tune a system that works for you will simplify your record-keeping and financial management forever.

Think of organizing your finances in four general areas:

1. **Paperwork.** This is all about managing information, both digital and paper documents. We all have birth records, school records, health records, insurance policies, tax records, bank statements, paid bills, correspondence.

   This information is commonly disorganized and difficult to access quickly. The key here is to give yourself some flexibility by setting up and using a filing system that meets your needs.

2. **Net Worth.** Once a year it’s a good idea to inventory what you own and what you owe, and create your own personal net worth statement. Compare it to last year’s statement and see if you are improving your financial position.

3. **Cash Flow.** This involves more than just creating a budget. Understanding what you earn and how you are using your money gives you more power over your life. Managing your money wisely, not emotionally, is the key to gaining control over your financial life and giving you the best chance of reaching and maintaining your lifelong goals.

4. **Employment Benefits.** For millions of workers and small-business owners, employment benefits are a hidden paycheck. Any amount your employer contributes to your insurance — health, vision, dental, disability, automobile, long-term care and life — future retirement, financial planning and other benefits is money you don’t need to spend with your after-tax dollars.
Your financial PARTNER will now provide you with information and planning tips to help you get and stay better organized. The objective here is help you get and stay organized and to familiarize yourself with essential principles of smart financial management and processes so that you can begin creating or solidifying your personal financial plan.

“Organizing is what you do before you do something, so that when you do it, it is not all mixed up.”

A. A. MILNE
CHAPTER 1
Organize Your Paperwork

“Getting your house in order and reducing the confusion gives you more control over your life.”

LARRY KING

Moving Past the Paperwork

Quick! Where’s your life insurance policy? How about your note and deed of trust or your pink slip or last year’s retirement plan statement? How long would it take you to document a charitable tax deduction questioned by the IRS? When is your next property tax payment due?

We all have to deal with a rising tide of personal and financial paperwork. It starts with your birth certificate and just keeps getting bigger and more complex over time. Bills, statements, records, receipts; the flow of information can easily seem overwhelming, especially when scattered files or critical pieces of paper and digital files go astray. And who has time for long-term thinking, when there are this month’s bills and this year’s tax returns with which to cope?

That’s why organizing your paperwork, which now includes digital files, is the first and most fundamental step in financial management. If you invest the time to set up a system that works, it will simplify your record keeping and financial management forever. You’ll also:

• Save time whenever you pay bills, make financial decisions, or work on income tax returns.
• Eliminate stressful last-minute searches for information or documents.
• Ensure that in a family emergency, critical documents and information are easily accessible.
• Keep from overlooking expense reimbursements or tax deductions to which you’re entitled.
• Avoid paying penalties because of missed or late payments, or being caught short of funds when large obligations unexpectedly come due.
All it takes to organize your paperwork, both paper and digital, is a 
Financial Organizer, a flash drive or DVD, a few file folders, some time, and 
follow-through. If you want to strengthen your financial management, 
getting organized is the place to begin. The time invested today will pay 
off in the future by saving you money, time, and stress.

Common Mistakes to Avoid Organizing Your Paperwork

- 1. Being unorganized
- 2. Keeping many To Do Lists
- 3. Not keeping your primary documents in a central location
- 4. Not keeping your data in order so someone else can locate 
   important information when you get sick or pass
- 5. Not using financial advisors properly
- 6. Not getting a second opinion on important transactions
- 7. Not checking your credit report and credit score regularly
- 8. Procrastination

Preview of What You’ll Be Doing

Here's an overview of the actions you’ll take to organize your 
paperwork:

- Use your Things to Do List as a reminder to prevent important tasks 
  from “slipping through the cracks.” As you determine what needs to be 
  done, record each task on your Things to Do List.
- Gather and centralize your most important money-related documents by 
  filing them into your Financial Organizer, a pouch to hold your primary 
  documents, and / or a flash drive or DVD to hold a digital version of 
  them. Then you will have easy access to key financial documents such 
  as stock confirmations, employee benefit statements, insurance polices, 
  or wills — a big step toward getting your financial life in order.
- Set up your Personal Filing System to hold all your other financial 
  documents, from bills and correspondence to worksheets, tax notices, 
  and insurance claims. The Personal Filing System can be the start of an 
  overall household filing system or augment one you already have.
- Keep up with key financial dates, such as income tax filing or auto 
  registration deadlines, using your own Financial Planning Calendar.
- Organize your personal and family background information and data 
  on the financialPARTNER Fact Sheets.
- Select advisors to assist you in making important decisions and 
  implementing your financial plans.
- Obtain a copy of your credit report and score, not simply as a matter of 
  record, but also to ensure that the information is accurate to save you 
  money.

When you have completed these steps, you’ll not only be organized, 
you’ll have a flexible system you can use for life. You will also have at your 
fingertips the information base you need to make important financial 
decisions.
Start Your Things to Do List

As you set up your Financial Organizer, you will become aware of things you need to do or issues to consider in order to reach and maintain your goals. For example, you might need to locate a birth certificate or call your insurance broker for updates on a policy. While you are working with the financial PARTNER system, keep a copy of your Things to Do list near you to note the tasks you need to finish. This way, you won’t forget or postpone them.

Instructions: Things to Do List

1. Make extra copies of this form before you get started.
2. Fill in the task you need to accomplish:
   Be sure to write in any information that will help you finish the task: name of contact person, phone numbers, account numbers, etc.
3. Prioritize and date:
   Set a priority for each of your tasks:
   - A high priority
   - B medium priority
   - C low-priority
   Decide when you need to complete each one. Write in your target date to prioritize the task. This will remind you of what is coming up for you to do and when. You can always change your mind and schedule a new date.
Gather Primary Documents

Your Financial Organizer is a portfolio pouch designed to store your primary documents, including birth certificates, prenuptial agreements, year-end statements, stock certificates, deeds, insurance policies, wills and trusts, and completed financialPARTNER forms. This can be acquired at a stationary store, online, or through us. You can also use a flash drive or DVD to capture a digital version of your primary documents. Use the Primary Documents Checklist included with your forms to guide you.

Having your documents available at your fingertips can save you real time when completing loan applications, insurance applications, and getting an accurate picture of your current financial situation. It can also save you — and your heirs — money. By organizing your primary financial documents in a centralized location, your key information will be available when you meet with financial advisors, if you become ill and someone needs to assist you with your finances, or when you pass away.

Instructions: Primary Documents Checklist

1. Gather primary documents using the Primary Documents Checklist as a guide. Gather and check off the documents that are easily accessible. If certain documents are not readily available, jot them down on your Things to Do List to remind you to add them to your Financial Organizer, and your flash drive or DVD. As you complete the financialPARTNER forms and worksheets, store them in your Financial Organizer, and include a digital version on a flash drive or DVD.

2. File all primary documents in your Financial Organizer. Notice that you can label your organizer separators to correspond with the headings on the Primary Documents Checklist and can serve as a directory for your folders on your flash drive or DVD. However, feel free to customize your own labels if that works better for you.

Primary Documents Checklist

FINANCIAL PARTNER FORMS — CURRENT POSITION
- Completed Net Worth Statement
- Completed Assets & Liabilities Schedules
- Cash Flow Worksheets

FINANCIAL PARTNER FORMS — PLANNING
- Lifestyle Goals
- Financial Independence & Retirement Plan—FIR™
- Major Expenditures
- Investment Plan
- Tax Plan
- Insurance Summary
- Estate Plan Documents Summary

FINANCIAL PARTNER FORMS — YEAR-END STATEMENTS
- Bank Statements
- Loan Statements
- Mortgage Statements
- Brokerage Firm Statements
- Retirement Plan Statements
- Other

FINANCIAL POSITION DOCUMENTS
- Stock Certificates
- Mutual Fund Certificates

FINANCIAL POSITION DOCUMENTS (CONTINUED)
- Annuity Contracts
- Other Investment Evidence of Ownership
- Lease
- Vehicle Registration Certificates
- Employment Agreements
- Bankruptcy Documents
- Business Agreements
- Buy-Sell Agreements
- Promissory Notes
- Cohabitation Agreements
- Divorce Agreements

EMPLOYMENT BENEFITS
- Employee Benefits Statements

TAX RETURNS
- Income Tax Returns (last 2 years)
- Gift Tax Returns

FINANCIAL INSURANCE
- Life Insurance Policies
- Health Insurance Policies
- Disability Insurance Policies
- Long Term Care Policies
- Social Security Audit

CASUALTY INSURANCE
- Property Insurance Policies
- Vehicle Insurance Policies
- Personal Liability Umbrella Insurance Policy

WILLS & TRUSTS
-
3. Duplicate critical documents and store originals in a safe-deposit box. If you have one-of-a-kind documents, such as evidence of automobile ownership (title papers), or negotiable instruments, such as stock or bond certificates, make copies to be placed in your Financial Organizer, and keep the originals in a safe-deposit box. (Keeping originals in your Financial Organizer in a safe or box at home may be adequate for you, providing it is safe from fire and theft.) For documents that are easily replaced, such as insurance policies, employment benefit statements, and mutual fund statements, the cover page and other key pages can be copied and placed in the safe-deposit box. Valuable items such as jewelry, rare gems, coins, and stamps should always be stored in a safe-deposit box. Check with the financial institution that houses your safe-deposit box to be sure that the contents are insured. If they are not, check with your insurance agent regarding cost of coverage. A Safe-Deposit Box Checklist is provided in your packet of forms to inventory your safe-deposit box contents.

4. After you have filed a document in your Financial Organizer, check it off your list.

5. Store your Financial Organizer and flash drive / DVD in a fireproof safe or box in your home. Be sure all adult members of your household know its location in case of an emergency. Do not keep your Financial Organizer in a safe-deposit box, since it is important that your primary documents be easily accessible in case of an emergency, when the banks may be closed. Also, certain states prohibit access to safe-deposit boxes upon the death of the owners without court supervision.

Now that all your primary documents are organized, safe, and easy to access, the next step is to organize your other financial information, correspondence, records, and other paperwork.
Set Up Your Personal Filing System

A Personal Filing System will contain information that supports your primary documents, e.g., correspondence, worksheets, insurance claims, etc., as well as other miscellaneous paperwork. The purpose of this system is to provide easy access to documents and information that could be needed in the future. If you do not have a Personal Filing System in place, or if your system could be improved, the financialPARTNER provides the following guidelines.

What You’ll Need

The financialPARTNER Personal Filing System is set up using manila file folders which can be stored in a file box, desk drawer, regular or fireproof file cabinet, or storage boxes. Depending on the complexity of your current financial situation, you will need a minimum of 12 dividers and 25 manila file folders. This same methodology can be use or modified for your digital files.

Instructions: Personal Files Checklist

1. Set up your Action Files — Ready Access Items. Label the first divider “Action File” for organizing your most frequently used files. Set up the following Action Files:
   1. Bills to Be Paid
   2. Paid Bills, Current Year
   3. Current Year Tax File
   4. Invoices/Credit Card Receipts
   5. Monthly Statements
   6. Pending Items
   7. Coming Events
   8. To Be Filed

   If there are other frequently used files, include them in the Action File category. Number or color-code them for easy access and filing, and keep them in a readily accessible file box, desk drawer, or file cabinet. Review your Action Files each time you pay your bills.

Keep all warranties in a single location. To save time and hardship keep your warranty cards with their purchase receipts for your key purchases in a centralized location. Store them in a permanent file called “Warranties” that can be kept with your other asset and liability files within your filing system.
2. **Set up your Main Files — Reference Paperwork.** The remaining 11 dividers organize the heart of your *Personal Filing System.* This is where you store the paperwork you may need sometime in the future. Label these dividers as follows:

1. Personal Information
2. Assets & Liabilities/Net Worth
3. Cash Flow Planning
4. Employment Benefits
5. Goal Setting
6. Financial Independence & Retirement Planning
7. Major Expenditures
8. Investment Planning
9. Tax Planning
10. Insurance Planning
11. Estate Planning

See the Main Files checklist for suggested labels for your manila file folders.

3. **Set up your Historical Files.** This is where you keep old, bulky paperwork, such as your last two years’ tax return support documents, and old insurance policies. To conserve work space, these infrequently used files can be kept in clearly labeled file boxes stored in the attic, basement, or other safe out-of-the-way location.

4. **Set up your Family Memorabilia/Projects file.** This is where you keep those hard-to-file but important special projects, such as children’s school papers, landscaping and remodeling plans. This information can be kept in clearly labeled file boxes in the attic, basement, or other safe, out-of-the-way location.

Now that your financial documents are organized, you can move on to the *Financial Planning Calendar.*
Fill Out Your Financial Planning Calendar

Many financial obligations occur on a regular schedule. Still, annual events like renewals of insurance policies, certificates of deposit maturities, or property tax deadlines can catch you by surprise. Use the Financial Planning Calendar to manage important financial dates and take the weight of your financial schedule off your mind. You will find two “year-at-a-glance” Financial Planning Calendars in your packet of forms:

- The first calendar has regular predefined events to remind you of key financial dates, such as income tax filing or auto registration renewal.
- The second calendar is blank so you can customize it to your particular financial dates or event. These may include annual shareholder meetings, real estate review, and lease renewal dates.

If you use a digital calendaring system you can easily incorporate this methodology into it.

Instructions: Financial Planning Calendar

1. **Preview the Financial Planning Calendar.** Enter the dates you already know on your Financial Planning Calendar. Note any dates that you need to look up on your Things to Do List to remind you to add them to your Financial Planning Calendar.

2. **Mark financial dates on your Financial Planning Calendar.** Note the activity or task, then mark the date in the column to the right under the appropriate month, day and year. Also mark these dates on your personal time management calendar, if you keep one.

3. **Keep your Financial Planning Calendar handy.** Store it in your forms binder or in your Financial Organizer.

4. **Review your Financial Planning Calendar monthly.** Check your calendar each month to see what’s coming up. A good time to do this is when you are paying bills. Review the current and next two months so you can plan your cash flow accordingly, without surprises. Transfer these tasks, such as property tax payments, quarterly income tax payments, and auto registration to your personal calendar or planner in red ink so you do not miss them.
### Financial Planning Calendar

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- **NOTES**

Plan ahead. Allow yourself plenty of lead time to accomplish tasks related to dates that you mark on your Financial Planning Calendar. For example, give yourself at least a week or two before you have to reinvest your certificate of deposit or renew your insurance policy. This additional time will give you a chance to identify and evaluate your choices. If you wait until the last minute, odds are you will automatically renew without considering new options.
Organize Your Personal & Family Data

The next step in organizing your financial affairs is to fill out a series of Fact Sheets that keep key personal and family data. This information will then be readily available to you and others who deal with your finances. These Fact Sheets will be used for financial applications, advisor interviews, and tax return preparation.

Instructions: Personal & Family Fact Sheets

1. Gather all personal documents or information needed to complete the forms, such as:
   - Birth Dates / Birth Certificates
   - Phone & Fax Numbers, Email Addresses
   - Employment History & Résumés, References
   - Family & Friends: Names, Addresses, and Phone Numbers
   - Education: Diplomas, Transcripts and Certificates
   - Military History: Discharge Papers, Veterans Administration Documents
   - Marital Status / Dates
   - Custody and Support Agreements
   - Social Security Numbers and Audits
   - Immigration Certificates
   - Driver’s License Numbers
   - Blood Type and Major Illnesses
   - Professional License Numbers
   - Passport Number

2. Fill out all Fact Sheets.
   - Personal Information
   - Family & Friends
   - Family Advisors
   - Home Maintenance Specialists
   - Financial Advisors
   - Security Codes / Passwords

   If you require more space to complete your personal and family information, use additional copies.

3. Return personal records to your Financial Organizer.

4. File your completed personal and Family Fact Sheets in the Personal & Family Records and Data section of your Financial Organizer or forms binder.

5. Add a reminder on your Financial Planning Calendar to periodically review and update your Fact Sheets.

When you meet with a new attorney, accountant, or other financial advisor, take a copy of your personal and family Fact Sheets for them. This could save you a half hour of their time. At $100 to over $450 an hour, that can be serious money!
### Security Codes (Keep Private & Confidential)

<table>
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<tr>
<td>Tina</td>
<td>M. Sullivan</td>
<td>321 Willow Ave</td>
<td>Carmel</td>
<td>CA</td>
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<tr>
<td>Jane</td>
<td>Anderson</td>
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<td>Balhamont</td>
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### Background & Personal Information

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<td>Date of Birth</td>
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</tr>
<tr>
<td>City</td>
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<tr>
<td>Date of Birth</td>
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<tr>
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<tr>
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When you meet with a new attorney, accountant, or other financial advisor, take a copy of your personal and family files home for them. This could save you a full hour of your valuable time.
Outline Your Family Tree

The next step is to fill out your family tree. This will give you and your advisors a quick view of your linear family relationships that can assist with estate planning.

Instructions: Your Family Tree Form

1. Identify your siblings, your parents, their siblings
2. Children of your current or any prior marriages or relationships
3. Children of your children—your grandchildren
4. Do the same for your spouse or life partner

Select Your Advisors

Financial advisors can assist you in making important decisions and implementing your financial plans.

Due to the complexities of today’s financial environment, it has become very important that you carefully select qualified advisors. They can assist with financial planning matters and help guide you when your situation changes or emergencies occur. Their services, used properly, should save you both time and money. The responsibility of selecting advisors is yours. This section will guide you in locating, selecting, and evaluating your advisors.

In addition to your financial PARTNER, other financial advisors you might use include: attorneys, accountants, financial planners, investment advisors, money managers, stockbrokers, real estate brokers, life insurance underwriters, casualty insurance agents and brokers, trustees and trust officers, and bankers. These financial advisors may provide more than one service. For example, some law firms provide tax preparation services, as well as functioning as financial advisors. Accounting firms may function beyond the scope of tax preparers and serve as financial advisors. A number of life insurance agents and stockbrokers are qualified as financial planners.

Be advised, financial advisors are usually compensated either with commissions or fees. There are some who are compensated by both.

- Commission-based advisors—These advisors do not charge any direct fees, provided that you buy your financial products through them. The advantage is that you do not pay directly for services. The disadvantage is that they might lose their objectivity or provide you with financial products that have excessive commissions. Commission-based advisors are usually found through brokerage houses, insurance companies, and financial planning firms.
• Fee-based advisors—These advisors charge you for their time. They work on an hourly or project basis or charge a fee based on a percentage of your assets. The advantage of this type of arrangement is maintaining the advisors’ objectivity and independence. The fee advisor may direct you to no-commission or low-commission products. The disadvantage is that you pay direct fees even if you do not follow their advice. If there are financial products involved, you may still end up paying commissions along with the fees. Fee-based advisors are usually found through accounting firms, law firms, and financial planning practices.

Today’s complex economic environment requires that you choose the right financial advisor(s) for your particular situation. Choosing a financial advisor is not unlike choosing a doctor, dentist, or other professional and requires careful screening. The following is an excellent process to follow in locating and selecting your advisors.

Start by asking your current professional contacts and your peers for referrals. Are they aware of any? Who presently represents them? If you do not get satisfactory input, check with professional organizations and associations for advisor referrals that may include:

- **AEP®** (Accredited Estate Planner®)—National Association of Estate Planners and Councils, 866.226.2224, [www.NAEPC.org](http://www.naepc.org)
- **Attorney** (Lawyer)—State Bar Association: [www.abanet.org](http://www.abanet.org)
- **CAP®** (Chartered Advisor in Philanthropy®)—The American College of Financial Services, 888.263.7265, [www.theamericancollege.edu](http://www.theamericancollege.edu)
- **CEBS®** (Certified Employee Benefit Specialist®)—International Foundation of Employee Benefit Plans, 888.334.3327, [www.ifebp.org](http://www.ifebp.org)
- **CFA** (Chartered Financial Analyst)—CFA Institute, 800.247.8132, [www.VFAInstitute.org](http://www.vfa Institute.org)
- **CFP®** (Certified Financial Planner®)—Board of Standard Financial Planning Association, 800.487.1497, [www.CFPnet](http://www.cfpnet)
- **ChFC®** (Chartered Financial Consultant®)—The American College of Financial Services, 888.263.7265, [www.theamericancollege.edu](http://www.theamericancollege.edu), Society of Financial Service Professionals®, 888.243.2258, [www.financialpro.org](http://www.financialpro.org)
- **CLU®** (Chartered Life Underwriter®)—The American College of Financial Services, 888.263.7265, [www.theamericancollege.edu](http://www.theamericancollege.edu), Society of Financial Service Professionals®, 888.243.2258, [www.financialpro.org](http://www.financialpro.org)
- **CPA** (Certified Public Accountant)—American Institute of Certified Public Accountants, 888.777.7077, [www.aicpa.org](http://www.aicpa.org)
- **CPA/PFS** (Certified Public Accountant/Personal Financial Specialist)—American Institute of Certified Public Accountants, 888.777.7077, [www.aicpa.org](http://www.aicpa.org)
- **CPCU** (Chartered Property Casualty Underwriter), 800.932.2728, [www.cpcusociety.org](http://www.cpcusociety.org)
- **CTFA** (Certified Trust & Financial Advisor)—American Bankers Association, 800.226-5377, [www.aba.com/About+ABA/abainfo.htm](http://www.aba.com/About+ABA/abainfo.htm)
- **FPA** (Financial Planning Association), 800.322.4237, [www.FPNET.org](http://www.fpnet.org)
- **NAPFA** (National Association of Personal Financial Advisors), 888.333.6659, [www.napfa.org](http://www.napfa.org)
- **NAEPC** (National Association of Estate Planners and Councils), 866.226.2224, [www.NAEPC.org](http://www.naepc.org)
- **Private Fiduciary**—check your state or contact The Professional Fiduciary Association of California for assistance, 949.681.8046, [www.pfac.org](http://www.pfac.org)
- **Real estate agents and brokers**—your local Board of Realtors or the National Association of REALTORS®, [www.realtor.com](http://www.realtor.com)
- **RIA** (Registered Investment Advisor)—State Department of Corporations; and Financial Industry Regulatory Authority 301.590.6500, [www.finra.org](http://www.finra.org)
- **Stockbrokers and Registered Representatives**—Financial Industry Regulatory Authority 301.590.6500, [www.finra.org](http://www.finra.org)
Before meeting with a prospective financial advisor, outline your needs for today and the future. For example, if you are a small-business owner in need of an accountant, your needs may be outlined as follows: tax planning, tax return preparation, financial statements for management purposes, accounting systems, audits, and bank-required financial statements.

**Important Criteria for Selecting Your Advisor**

When interviewing financial advisors, evaluate them on the following criteria as they pertain to your needs:

- Personal compatibility
- Reputation
- Ability to understand your needs
- Expertise and experience
- Fee structure
- Referrals and professional references
- Degrees and certification
- Size of firm or practice

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**Specific Questions to Ask a Prospective Advisor**

To assist you in evaluating a prospective advisor, financial PARTNER suggests that you ask the following questions prior to or at your first meeting:

- What is your background? Your firm’s background?
- What is your area of specialization? Your firm’s?
- Do you have expertise in ... (specific to your needs)?
- Will you be working on my account, or will your staff? If staff, will a specific staff person be assigned to me?
- What is your staff turnover rate?
- How do you get paid: fixed-fee, hourly, or commission? How much will I be charged?
- Will you quote a fixed fee per assignment?
- Will you provide a letter outlining our relationship?
- How many of your clients have situations similar to mine?
- Have you ever been sued for professional reasons? If so, why? What was the outcome?
- Which professional organizations do you belong to?
- Do you have experience in working with local, state, or federal government agencies?
- Which banks do you work with frequently?
- Will you provide a list of professional references and current clients?
Obtain Your Credit Report & Score

A good credit rating can be a powerful financial tool and save you 1000's of dollars from higher interest rates. You may not realize how important your good rating is until you have lost it. Once your creditability is damaged, reestablishing a good rating may be a difficult, time-consuming project. Negative information, assuming it’s correct, can be held in your credit file for seven years, a bankruptcy even longer.

It’s important to obtain a copy of your credit report and score, not simply as a matter of record, but also to ensure that the information is accurate. Ask the consumer credit department of your local bank for assistance or you can order your free annual credit report online at www.annualcreditreport.com or by calling 877.322.8228. Federal law allows you to a free copy of your credit report each 12 months for each credit reporting company. However, your free annual credit report does not include your credit score, but it is available for a fee.

There are several different credit scoring systems and a number of credit bureaus including these three major ones.

- Equifax Information Service Center, 800.685.1111, www.equifax.com
- Experian National Consumer Assistance Center, 888.397.3742, www.experian.com/consumer
- TransUnion LLC, Consumer Disclosure Center, 800.888.4213, www.transunion.com

Even though each creditor has their unique scoring system, ranges and categories here’s a general summary.

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<td>Fair Credit</td>
<td>650-699</td>
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<td>Poor Credit</td>
<td>600-649</td>
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<td>Bad Credit</td>
<td>Below 600</td>
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</table>

Evaluate Your Existing Financial Advisors

The following are questions to consider after working with an advisor:

☐ Has your advisor completed the tasks requested in a timely manner?
☐ Did the advisor work within the fees quoted?
☐ Did you feel the value obtained for these services was worth the fee?
☐ How comfortable were you in working with the advisor?
☐ Did your advisor return your calls promptly and provide you with sound financial advice?

Over the years, financial advisors and their firms will play an important role in assisting you to reach your goals in each of the areas of your financial planning. If you are not satisfied with an advisor's performance, discuss your concerns with the advisor, as it is important for you to give your advisors feedback so they can best serve you. If you remain dissatisfied with an advisor’s attitude or services, it may be time to find another advisor.

By following the above guidelines and working with your financial PARTNER you will improve your chances of selecting and working successfully with advisors appropriate for your situation.
A Good Credit Score Can Be Worth $1000’s to You

When you have a good credit score you have great benefits that can be worth a lot of money to you currently and over time. Here are some that might interest you:

- Better car insurance rates.
- Better negotiating power to get higher loan amounts at better rates.
- Lower rates on mortgages, car loans, and credit cards.
- Easier approvals on rental houses and apartment rentals.
- Avoid some security deposits.

How to Get and Keep a Good Credit Score

The various credit scoring systems rate activities differently; the following actions make good personal financial management sense.

- Avoid late payment fees; always pay your bills before their due dates.
- Don’t over use your credit; keep your balances low on your credit cards.
- Keep your total monthly housing expenses (including mortgages and secured lines of credit principal and interest payments, homeowners insurance, property taxes, condo fees) should not exceed 28 percent of your gross monthly income. Your total debt service, including your house payments plus all other debt payments, should not exceed 36 percent of your gross monthly income. These percentages may be adjusted some according to the costs of living and real estate prices where you live.
- Pay off your debt rather than moving it around.
- Don’t open new credit cards just to increase your available credit.

Let’s Review the Essentials

Here are the essential principles to organizing your paperwork

- 1. Keep only one Things to Do List
- 2. Organize and file your Primary Documents
- 3. Keep your Personal Filing System current
- 4. Keep a Financial Planning Calendar
- 5. Keep your Personal and Family Fact Sheets current
- 6. Select and use financial advisors wisely; get a second opinion on important transactions
- 7. Annually obtain and review your credit report and score
- 8. Review the planning tips and ideas covered in Chapter 1

Congratulations! You have established a sound organizational system for all of your financial information. Now let’s go on to determine your financial position.
CHAPTER 2
Know Where You Stand

The Journey Begins Where You Are

It’s a fact of life: you must know where you are before you can make plans to go somewhere else. Developing a detailed description of your financial position is more than an accounting exercise. A complete statement of your financial position indicates what you own (assets) and what you owe (liabilities), plus where your money comes from and where it goes. This information is essential in making wise financial decisions, and doing any long-range planning.

Assessing your financial position involves more than arriving at a dollar figure for how much you’re worth. It’s important to understand what kinds of assets and liabilities underlie your numbers and how they affect your overall financial picture. When it comes to assets, for example, liquidity is a key consideration. In other words, how readily can you convert an asset into cash? Someone with a $250,000 portfolio of stocks and bonds that can be sold quickly is in a much different position than someone whose only major asset is $250,000 of equity in a house that might take months to sell. On the liability or debt side, similar distinctions come into play. The issues and choices raised by a $20,000 credit card debt or impending balloon payment on a home loan are much different from those connected with a $50,000 balance on your fixed-rate mortgage.

financialPARTNER will help you define your current financial position, the essential starting point for determining and moving toward your financial goals. This is the first step in the process of seeing how all of the pieces of your financial life are interconnected — from savings, investments, and taxes to insurance and estate planning.

“Your net worth to the world is usually determined by what remains after your bad habits are subtracted from your good ones.”

Benjamin Franklin
Getting to the Big Issues

The first step is to determine your net worth. To simplify this, your financial PARTNER provides a series of schedules and forms to help guide you. If your financial affairs are relatively simple, you won't be using many of the financial PARTNER forms. If you find yourself filling out numerous forms, that means you have extensive or diverse assets to manage, making it even more important to have an accurate overview of what you own and what you owe.

When you have finished cataloging your assets and liabilities and pinpointing your net worth, you'll be better positioned to understand some of life's biggest financial issues. The following are some general issues that you should begin thinking about:

- **How much money should I put aside for my future?** At your current rate of savings and with reasonable expectations of long-range investment returns, will you be able to maintain your standard of living in the future? As life expectancy increases, more and more people face the possibility that they'll outlive their money. If you haven't been on a fast enough savings track, can you really afford to divert retirement funds for a new car or private college for your children?

- **Does my mix of investments fit my needs?** Are you getting enough return over a five-to-ten-year period to grow your assets and maintain their purchasing power? Or are you invested so conservatively that the real value of your assets is being eroded by inflation? Or, on the other hand, is a big chunk of your portfolio in high-performance, high-risk investments that look great now but could significantly decline when market cycles change? Are your investments diversified among several investment vehicles and areas? Or are you betting too much on one type of investment, one industry, or one economic trend?

- **How prepared am I to handle a period of unemployment or other financial emergency?** If your job and income are quite secure, financial PARTNER recommends as a goal that you have enough money in non-retirement interest-bearing cash accounts to cover at least four months' worth of personal and household living expenses. If your job or income prospects are less certain, it's suggested that you make it a priority to build up cash accounts to at least one year's worth of living expenses (not including income taxes). If you have that amount in liquid securities such as stocks and mutual funds that are not part of a tax-deferred retirement plan, you can get by with cash accounts of four months' worth of living expenses for your emergency cash reserve.

**Common Mistakes to Avoid In Knowing Where You Stand**

- 1. Not regularly preparing and analyzing a list of what you own and owe
- 2. Not understanding what you own or owe
- 3. Increasing debt by over spending
- 4. Incur high interest debt, especially debt that cannot be repaid immediately
- 5. Not keeping the title to your assets current with your estate and financial plans
- 6. Not keeping your beneficiary selections current
- 7. Not having a sufficient cash reserve and back up line of credit
img1.jpg

• How much life insurance do I have and how much do I really need? Looking at the death benefit provided by your current coverage, how far will it go in the event that it is needed? Do you need more to adequately provide for your family?

• Should I think about restructuring my debt to reduce interest rates or lower taxes? For example, if you’re paying high interest rates on short-term debt, paying those debts off with a tax-deductible home equity loan could save you substantial money over time. It’s also important to think about how much credit you can access in case you really need it.

These are just a few of the big-picture issues that will come into sharper focus once you have determined your financial position. At the same time, having a detailed listing of your assets and liabilities will help you work with financial advisors, save you time and money at tax time, and make your financial choices clearer. The details of your financial position will also be essential information for anyone else who needs to deal with your financial affairs in the event of your illness, absence, or death.

Along with the instructions for completing the forms, financial PARTNER also gives you tips and ideas for making even better use of your money. While you’re documenting your financial position, these tips will start you thinking about ways to strengthen it.

An Overview of the Schedules

As you work with the financial PARTNER, you will fill out schedules regarding the different aspects of your financial life and transfer the totals to your Net Worth Statement. Most of the information needed to complete these schedules can be found in your Financial Organizer and within the Personal Filing System you have already established. If a schedule does not apply to your situation, skip it. However, you may want to read the Tips & Ideas.

The schedules pertaining to assets include:

- Cash & Cash Equivalents — Schedule 1
- Stocks & Stock Mutual Funds — Schedule 2
- Bonds & Bond Mutual Funds — Schedule 3
- Stock Options — Schedule 4
- Retirement Plans — Schedule 5
- Notes Receivable — Schedule 6
- Real Estate — Schedule 7
- Partnerships — Schedule 8
- Business Interests — Schedule 9
- Annuities — Schedule 10
- Life Insurance — Schedule 11
- Personal Property — Schedule 12
- Other Investment Property — Schedule 13

The schedules pertaining to liabilities include:

- Loans — Schedule 14
- Credit Cards — Schedule 15
- Other Debts — Schedule 16

The remaining schedules are used to document information not included in your other schedules and track your progress.

- Additional Net Worth Information
- Net Worth Comparison
Net Worth Statement

**Glossary**

Assets: What you own

Liabilities: What you owe

Net Worth: Total assets minus total liabilities

The following will help you prepare for determining your net worth.

**Instructions: Net Worth Statement**

1. **Review the Net Worth Statement form.** Take a moment to examine the example of a completed Net Worth Statement.

2. **Note that the form is divided into sections:** “Personal Assets & Liabilities” and “Investment Assets & Liabilities.” This distinction separates holdings that maintain your standard of living (personal) from those that are working for your future (investment). For example, your personal property, home, and car are “personal” assets; your stocks, mutual funds, and retirement plans are “investment” assets. Your financial PARTNER will help you determine which assets are “personal” and which are “investment,” as you go through the process of getting organized.

3. **Review the spaces on the form where you will list the value of your different types of assets and liabilities.** You will be transferring final figures from the various schedules to these spaces.

4. **Sort through the schedules, and pull out those that do not apply to your financial position.** (For instance, if you do not own any stock options, you may set aside “Stock Options — Schedule 4.”) Store the schedules you will not be using in your filing system for possible future use.

Now you should have in front of you only the schedules dealing with assets or liabilities that are relevant to your financial situation.
Financial Terms You’ll Need to Know

Before you begin filling out the schedules, take a moment to consider some fundamental issues. You will need to be clear about these if you want your financial statements to be accurate.

### Determining Current Value

**Current Value:** The fair market value of real estate, financial investments, or personal property, which is the price a willing buyer will pay a willing seller in a non-distressed sale environment.

As you fill out the schedules, you will be asked to identify the current, or “market” value, of your holdings. In some cases, you may have financial statements that give you the current value of an asset (for example, a bank account or mutual fund shares). If not, you may need to get the current value from another source or conduct your own evaluation, consulting financial references, advisors, or experts.

- **Forms of Ownership:**
  - Community Property (CP)
  - Joint Tenancy (JT)
  - Separate (S)
  - Tenancy-in-Common (TIC)
  - Tenancy by the Entirety (TE)
  - Trust (T)

- **Tips & Ideas:** It’s both important and easier to use the same statement date for each schedule. If your statements have different dates, contact your financial institutions and ask them to adjust the dates to either the first or last day of the month.
How You Own Your Assets

The term “holding title” refers to the legal manner by which you and your name are associated with asset ownership. You can hold title to property in your name as your sole and separate property or in one of the following ways:

Community Property (CP): Property held equally (in community) by husband and wife, which has accumulated during marriage (except through inheritance or gift). Community property laws are in effect in nine states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Community Property with Rights of Survivorship (CPRS): Property held equally (in community) by husband and wife, which has accumulated during marriage (except through inheritance or gift). If one person dies, his or her share automatically transfers to the survivor.

Joint Tenancy with Rights of Survivorship (JT): A method of ownership in which two or more persons can hold equal or unequal percentages in real estate, financial investments, or personal property. If one person dies, his or her share automatically transfers to the survivors, even if a will specifies otherwise.

Tenancy by the Entirety (TE): Ownership of property by a husband and wife together that includes a right of survivorship. Neither spouse can encumber or dispose of the property without the other’s permission. This way of holding title is not recognized in all states.

Tenant-in-Common (TIC): Two or more holders of equal or unequal shares of property which carries no rights of survivorship.

Trust (T): An arrangement set up by a legal agreement designed to manage and control certain assets, usually held by one person or persons for the benefit of others.

In your schedules, you need to identify the form of ownership for each asset you own. This is easy to overlook, but can become a major issue if the way you actually hold title doesn’t fit your true intentions for disposition. To determine how your ownership is titled for a particular asset, such as a bank account, check your application or account opening forms. Your monthly statements may not be sufficient, as they may not state the actual way by the financial institution holds title for you. If you can’t find your application forms, request a copy.

Cost Basis

Cost Basis: The price you paid for an asset, plus or minus any tax adjustments, commissions, or fees. In the case of stocks or mutual funds, your cost basis would be what you paid for the shares, plus commissions.

You’ll be asked to list the cost basis for your assets as you fill out the financial PARTNER schedules. The cost basis question and the date acquired becomes especially important at tax time, since the purchase and sale of assets may create a “taxable event” in the eyes of the IRS. Remember to keep track of your investment confirmations whenever you buy or sell. If you keep your statements of stock purchase and sale on file, you’ll be able to specify what you initially paid for them. If you don’t or cannot specifically identify the sold shares by date and price, the IRS applies a “First In, First Out” (FIFO) rule, which assumes that the first shares you sell are the first shares you bought. This could be to your disadvantage if you purchased the stock over time and its price has decreased.

If your stock had dividends reinvested, or split, calculating your cost basis can become quite complicated. In this case, having good records is even more critical. You can also call your broker or advisor for assistance.
Classify Your Investment Holdings

Your financial PARTNER classifies investment assets according to the following asset allocation classes:

**Cash & Cash Equivalents**: Includes checking and savings accounts, certificates of deposit, money market accounts, savings bonds, money market funds, treasuries with a maturity date of under one year, and cash on hand.

**U.S. Fixed Income**: Includes U.S. company or U.S. government bonds that are issued directly or are part of a mutual fund, and other domestic debt instruments, such as certificates of deposit, deeds of trust, and notes receivable, with a maturity date of over three months.

**U.S. Large Company Stocks**: Includes U.S. stocks or funds of larger companies (market capital of over $1 billion), equity income, and convertible securities.

**U.S. Small Company Stocks**: Includes U.S. stocks or funds of smaller companies (market capital of less than $1 billion), equity income, and convertible securities.

**International Fixed Income**: Includes foreign debt instruments that are issued directly or as part of a mutual fund.

**International Stocks**: Includes all foreign company stocks or funds.

**REITS**: Real Estate Investment Trusts.

**Other Assets**: Includes individually owned real estate, hard assets, small businesses, partnerships, and venture capital.

In Schedules 2, 3, 5, and 10, you will be asked to put your stocks, bonds, mutual funds, retirement plans, and annuities into various investment categories. Classifying your assets is an essential step in managing your investments. Investment experts have found that the allocation of investments among various “asset classes” or “investment types” is the single most important factor influencing investment returns. It is dramatically more important than individual security selection or market timing. Understanding your investment mix also helps you determine whether your investments are diverse enough to minimize the risks you are taking with your money.

With this preliminary information in hand, you are now ready to determine exactly where you stand.
Inventory Your Assets

You can now begin filling out the various schedules that apply to the assets portion of your Net Worth Statement. Have your calculator, your Things to Do list, your Financial Organizer and Personal Filing System close at hand. If you are not using a digital form, remember to use a pencil — you may want to erase! If you are missing any information, note it on Things to Do list as a future reminder.

Cash & Cash Equivalents

Schedule 1 is for recording cash and cash equivalents. These are your accounts with banks, savings and loans, credit unions, stockbrokerages, insurance or mutual fund companies that are held outside your retirement plan accounts. They would include checking and savings accounts, short-term certificates of deposit, money market accounts, saving bonds and money market funds, along with U.S. Treasury (T) bills with a maturity date of under one year. Cash which is kept at home or in a safe-deposit box would also be included in this category.

Instructions: Cash & Cash Equivalents — Schedule 1

1. List the name and general information for each account, including other signers on the account, how you hold title, and any fees associated with the account.
2. List the type of account (cash, checking, savings, certificate of deposit, money market account, money market fund, savings bond).
3. List or estimate the rate of interest you are earning on this account.
4. If the account has a maturity date, such as a certificate of deposit, list it here and on your Financial Planning Calendar.
5. List the current value of your account and your estimated income for the calendar year. To estimate the income, multiply the current value by the rate of interest.
6. Total the current value, then the estimated annual income of all accounts.
7. Determine what is personal cash and what is investment cash. Personal cash is money that is accessible and available to you which you could use for personal living expenses if needed. (See the following planning tips to determine how much personal cash to have on hand). Investment cash is any money exceeding the amount you would need for your personal living expenses.
8. Total the values on the schedule and enter your Current Value Total on your Net Worth Statement. This amount may constitute two entries: a Personal Cash total and an Investment Asset Cash total.
9. File the statements used to complete this schedule in your Financial Organizer.
CHAPTER 2: Know Where You Stand

Identifying Your Personal & Investment Cash

Your personal circumstances will determine your need for cash. If your total cash position is below the level suggested here, don’t panic but begin developing a savings plan to build up your cash position before making any long-term investments. Here are some general guidelines.

If you are
- An employee who is unsure about his/her future job status
- A business owner
- A retiree

It is suggested, as a goal, that you keep one year’s living expenditures (not including income taxes) in interest-bearing cash accounts.

- If you have more than one year’s living expenditures in securities that are easily convertible to cash (and are not in a tax-deferred retirement plan needed for retirement), then you can reduce your cash reserve to four months’ personal living expenses.
- If you are in a very secure job position, a minimum of six months’ living expenditures should be your objective for liquidity.
- Consider these funds as a personal asset — they affect your current standard of living.
- If you have an excess of cash over the amount of your “personal living expenditures requirement,” consider these excess funds as an Investment Asset — they are working for your future standard of living or retirement.

☐ Be certain your cash accounts are insured. Under current rules, each FDIC-insured institution offers up to $250,000 basic insurance per category of legal ownership, so be sure to title your accounts separately. The rules could change, however, so be sure to verify the status of each account whenever one of your accounts exceeds $250,000 in any single institution. (www.fdic.gov)

☐ While you are building your cash reserves or as an added safety net you should have line of credit. It’s important to establish a line of credit before you need it. Waiting until you really need cash or until an emergency occurs may force you to apply for a loan when your creditworthiness is not at its best. You can obtain a line of credit based on the value of your home or by applying for an unsecured line of credit from your bank. You can also obtain a low-interest credit card to put aside for use only in emergencies.

☐ Do you have too many checking accounts? Determine if you need all your cash accounts and, if not, consolidate them into two or three. Later in the discussion on cash flow management, you will learn the number and types of cash accounts that are necessary and appropriate.
Stocks & Stock Mutual Funds

**Glossary**

**Asset Allocation:** Diversifying investment dollars among a variety of asset classes, such as cash equivalents, U.S. and international fixed income, U.S. large and small company stocks, international stocks, real estate investment trusts, and other assets.

**Common Stock:** A share of ownership in a corporation. Common stockholders face greater risk than corporate bondholders or preferred stockholders. In return, common stockholders stand to gain greater rewards in the form of capital appreciation.

**Mutual Fund:** A portfolio of any combination of stocks, bonds, and government securities bought and sold by a money manager.

**Preferred Stock:** A class of stock that is entitled to preferences over common stockholders.

**Real Estate Investment Trust (REIT):** An unincorporated association that invests in mortgages or real property and sells shares to the public.

**Venture Capital:** Equity investments in start-up companies that are privately owned and not publicly traded.

Schedule 2 is for information regarding each stock or stock mutual fund you own that is publicly traded on any exchange and is outside your retirement accounts. Do not include stock from a privately held or small business corporation. If you have accounts with brokerage houses or money managers, you may simply list the firm’s name and the stock totals. Be sure to list the cash accounts from these statements on your Cash & Cash Equivalents — Schedule 1.

**Instructions: Stocks & Stock Mutual Funds — Schedule 2**

1. List the basic information (name, account number, how you hold title, date acquired, number of shares) for each individual stock and mutual fund.

2. In the space marked “Class,” describe your holdings according to the asset allocation categories discussed earlier in this section, which are listed on the bottom of Schedule 2.

3. Enter the cost per share and current value per share on the top lines. When entering the cost per share, include any fees you paid (your cost basis). If you do not know your cost basis or purchase information, note it on your Things to Do list as an action item to be obtained from your broker.

4. Multiply each of the figures in Step 3 by the number of shares you own and enter the respective totals on the bottom lines.

<table>
<thead>
<tr>
<th>STOCK FUND</th>
<th>COST PER SHARE</th>
<th>CURRENT VALUE PER SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Symbol</td>
<td>CPS</td>
</tr>
<tr>
<td>Account #</td>
<td>Symbol</td>
<td>CVPS</td>
</tr>
<tr>
<td>Ownership</td>
<td>Symbol</td>
<td>TOTAL PER SHARE</td>
</tr>
<tr>
<td>Date Acquired</td>
<td># shares</td>
<td>TOTAL CURRENT VALUE</td>
</tr>
</tbody>
</table>

**Things to Do**

- List as an action item to be obtained from your broker.

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Stocks & Stock Mutual Funds — Schedule 2

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Symbol</th>
<th>Cost Per Share</th>
<th>Current Value Per Share</th>
<th>Sale Est.</th>
<th>Ann. Dividend</th>
<th>Total Return</th>
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<td>$8</td>
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<td>10%</td>
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<tr>
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<tr>
<td>Acme Media</td>
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<td>10%</td>
</tr>
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<td>4/15/92</td>
<td>18,000</td>
<td>180,000</td>
<td>1,800</td>
<td>1,800</td>
</tr>
</tbody>
</table>
5. Note any gain or loss, if you sell your holding, on the “Sale +/- ” line. To determine this figure, subtract your cost from the current value of the stock or fund.

6. Multiply your gain or loss by the number of shares, and enter the result on the lower line.

7. Optional: Estimate what you believe to be the annual appreciation (growth) and dividends (income) from your stock holdings. Use the top line to list percentages and the bottom line to list the actual appreciation and dividend dollar values. Sometimes brokerage houses put their estimates on the statements. Use their estimates only if you agree with them.

8. Complete the rest of the form for each stock holding owned, and total each column at the bottom as indicated.

9. Enter the total current value of your stocks on your Net Worth Statement as an Investment Asset under the “Stocks & Stock Mutual Funds” category.

10. File your stock confirmation(s) in your Financial Organizer.

If you are holding stocks in your name, you may have physical possession of stock certificates imprinted with your name. Keep them in your Financial Organizer only if it is in a safe and fireproof location. Otherwise, keep the originals in a safe-deposit box and a copy in your Financial Organizer. Keep annual reports and other papers in your Personal Filing System along with all of your secondary financial data.

In addition to outright gifts of stock to charity, highly appreciated long-term (held for longer than 12 months) stock can be used to fund a charitable remainder trust. In this arrangement, the stock is placed into a special trust, where it is managed and invested by a trustee, typically a bank or trust company. The trust makes payments to the donor of the stock for a period of years or for life, and then the remainder of the trust assets pass directly to charity. In addition to the income, the donor receives significant income tax, capital gains tax, and estate tax benefits. Consult your financial advisor for details.

When you invest in mutual funds, be careful to time your purchase. A mutual fund may have had capital gains earnings during the year from sales of stock that the fund owned. If, after you invest, the fund makes a year-end capital gain distribution, you will have to pay tax on the return of your recently invested money. A sound strategy might be to purchase that particular fund after the capital gains distribution date. This does not apply to funds used for retirement plans.

Many charities have a special fund to which you can make gifts of cash or stock. The charity then “pools” all gifts in the fund and invests them, and each year the donors receive their proportionate share of the investment income earned by the fund. Through this pooled income fund, the donors receive, in addition to the annual income, significant income tax, capital gains tax, and estate tax benefits. At the donor’s death, the donor’s contributions to the fund pass directly to the charity. Consult your financial advisor and charity for details.
Bonds & Bond Mutual Funds

Bonds & Bond Mutual Funds — Schedule 3

1. List the basic information (formal name of bond, account number, how you hold title, date acquired, number of bonds or shares) for each individual bond or mutual fund.

2. In the space marked “Class,” describe your holdings according to the asset allocation categories discussed earlier in this section, which are listed on the bottom of Schedule 3.
3. Enter the unit price that you paid for your bond holdings and their current value on the upper lines. If you have your confirmation, enter your cost basis from it. If you don’t have your cost basis or purchase information readily available, note it as an action item on your Things To Do List.

4. Multiply the figures in Step 3 by the number of bonds or shares you own, and enter the total amounts on the lower lines.

5. Note any gain or loss, if you sell your holding, on the “Sale +/-” line. To determine this figure, subtract your cost from the current value of the bond or fund.

6. Multiply your gain or loss by the number of bonds or shares, and enter the result on the lower line.

7. Estimate what you believe to be the annual appreciation (growth) and interest (income) from your bond holdings. Use the top line to list percentages and the bottom line to list the actual appreciation and interest dollar values. Sometimes brokerage houses put their estimates on the statements. Use their estimates only if you agree with them.

8. Complete the rest of the form for each bond and bond mutual fund owned, and total each column at the bottom as indicated.

9. Enter the total current value of your bonds on your Net Worth Statement as an Investment Asset under the “Bonds & Bond Mutual Funds” category.

10. File your bond confirmations in your Financial Organizer and the rest of your bond papers in your Personal Filing System.

Bonds are considered to be a relatively safe form of investment. You invest in a bond, then, at its maturity date, get your money back. During the maturing period or life of the bond, you are paid interest on your money. Beware, however; there are investment risks. If you wish to sell your bond early, fluctuations in interest rates can affect your sale price. Bonds are also subject to the following other types of risks:

- **Market risk** — Bond values rise as interest rates fall, and they fall as interest rates rise. This market risk will affect the value of your bond, especially if the need arises to sell the bond before its maturity date.

- **Purchasing power risk** — If the economy experiences high inflation, the buying power of the interest earned from your bond will not be able to compensate for the corresponding increases in the costs of goods and services.

- **Credit risk** — As a debt obligation of the issuer, a bond is subject to the risk that the bond principal (face amount) cannot be repaid at maturity or that interest payments cannot be met during the life of the bond. The creditworthiness of a bond’s issuer can vary greatly. Bonds may be secured by property or be unsecured, and they may be secondary to other loans which must be repaid first. Before investing, consult an appropriate advisor to evaluate both the creditworthiness of the issuer and the terms of a particular bond.
Stock Options

Incentive Stock Options (ISOs): An employee stock option plan that grants key employees options to purchase company stock at a predetermined price without incurring a tax liability either at the time the option is granted or when exercised.

Insider Trading Rules: It is against the law to buy or sell stocks in a company about which you have “insider” information that is unavailable to the general public.

Non-Qualified Stock Options (NQSOs): (Also referred to as “Regular Stock Options/RSOs) A stock option plan that gives key individuals a right to purchase company stock at a predetermined price. When the option is exercised, the difference between the option price and the fair market value is taxable as compensation. There may be income tax consequences at the time the option is granted if the option price is less than fair market value.

Stock Option: A purchased right to buy or sell a fixed amount of a given stock for a specified amount within a limited period of time; also can be an employee benefit, allowing the employee to purchase stock, usually at below market value.

Schedule 4 is for those who have stock options. These include company-provided stock options as well as an option to buy or sell a particular stock. Complete one line for each stock option you own. Note: Companies often provide summaries that would replace this form and therefore eliminate the need to complete it.
**Instructions: Stock Options — Schedule 4**

1. List the formal description and title for each stock option you own.
2. Note the type of option (RSO or ISO) and class of stock.
3. List the number of stock options you own and the option price per share.
4. List the current value per share of the security. This can be determined from either the various stock market listings in most newspapers or by an estimated value determined by you and your advisors based on personal and professional knowledge of the company.
5. Calculate the current value of the security by multiplying the current value per share times the number of option shares.
6. Calculate the option value by multiplying the option price per share times the number of option shares.
7. List the bargain element. To determine the bargain element, subtract the market value of the security from the option value. If the result is a positive number, you have equity, and should enter that number in the column. If the result is a negative number, you have no equity; consequently place a zero in the column.
8. List the dates or time period during which the stock options may be exercised and the void date after which the options may no longer be exercised.
9. Record these dates in your Financial Planning Calendar. You don’t want to miss these important dates!
10. Total the bargain element as indicated at the bottom of Schedule 4. Do not include any values for individual stock options with a negative bargain element.

11. Enter the bargain element as an Investment Asset on your Net Worth Statement under the “Stock Options” category.
12. Place your stock option(s) or confirmations in your Financial Organizer and the rest of your stock option papers in your Personal Filing System.

**TIPS & IDEAS**

- Note your stock option dates on your Financial Planning Calendar. If your company has issued you stock options with different purchase and expiration dates, be sure to note both dates so you don’t miss your opportunities.
- If you are an officer or employee of the corporation, and own stock options, be careful not to violate any of the insider trading rules.
Retirement Plans

401(k): An employer-sponsored retirement plan that permits qualified workers to invest a pretax percentage of their gross pay into the plan and avoid current income taxation on that investment. Investment earnings from this plan accumulate tax free until they are withdrawn. (The name comes from the actual federal tax code.)

Deferred Compensation Plan: A form of retirement plan, generally limited to management personnel, in which both the payment of compensation and the income tax on the compensation can be deferred for a period of years.

IRA (Individual Retirement Account): For 2016, any qualified worker can begin an IRA and obtain a tax deduction for cash contributions up to $5,500 ($6,500 if you are over age 50) annually. Subject to certain limitations, each spouse is entitled to deduct up to $5,500 ($6,500 if you are over age 50), providing the couple’s combined earned income is at least that amount. These funds grow tax deferred.

KEOGH: A program by which self-employed individuals may make tax-deferred contributions to a retirement plan.

Pension Plan: Money set aside to provide income or annuities to retired or disabled employees.

Profit-Sharing Plan: Any plan in which a portion of the profits of a company are set aside for distribution to its employees.

Roth IRA (Also Known As “Back-Loaded” IRA): An Individual Retirement Account to which qualified workers may make nondeductible contributions. For 2016, the maximum contribution is the smaller of $5,500 ($6,500 if you are over age 50) less any contributions made to other IRAs. The funds grow tax free. Up to $10,000 can be used for first-time home purchase by the worker, the worker’s spouse, or ancestor. After age 59½, the account holder may withdraw any or all proceeds without incurring federal income tax, if certain conditions are met.

SEP (Simplified Employee Pension Plan): A qualified plan which accepts employee and employer contributions to an employee’s IRA.

Tax-Sheltered Annuity (TSA) Or 403(b): Similar to 401(k) plan, but set up for public employees and employees of nonprofit organizations.

Schedule 5 is to be used to summarize your retirement accounts. Such plans include IRAs or 401(k) plans. Also list company pension plans that eventually will provide a defined or undefined income based on years of service and salary. If you have more retirement plans than the schedules allow for, make extra copies of Schedule 5. (Note: Because of their special provisions, Education IRAs should not be listed here, but instead on the Additional Net Worth Information form addressed later in this chapter.)

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![Retirement Plans - Schedule 5](image-url)
Instructions: Retirement Plans — Schedule 5

1. Enter the title for each account.
2. Enter the type of plan (IRA, 401(k), Profit Sharing, etc.).
3. Enter the company name and background information.
4. Enter the terms of your account, including: the current value of your interest in the retirement plan, the estimated rates of return on your holdings, and other benefits and information.
5. Identify your beneficiary selection and distribution options. This information can be found on forms you filled out when the account was opened or on beneficiary change forms that have been updated. If you do not have the paperwork, make a note on your Things to Do list to request it from your benefits manager or retirement plan custodian.
6. Identify your investment mix among the security asset allocation categories listed under “Investment Classification.” Enter the current value and total return for each account.
7. Total the current value for each investment classification and enter this amount on the final line of the schedule. Repeat this step for your estimated income.
8. Total the current value for all of your retirement plan accounts and enter this total on your Net Worth Statement as an Investment Asset under the “Retirement Plans” category.
9. Place retirement plan documents and year-end statements in your Financial Organizer and the balance of your papers in your Personal Filing System.

- If you need cash for a period of less than 60 days, you can access your IRA funds in the following manner. Through the IRA rollover provisions, you are allowed to remove funds from your IRA every 12 months and place them into a new IRA before the end of 60 days without a penalty. In this way, you can access cash for up to 59 days. But be careful! If you are even a day late, your transaction will be considered an early withdrawal, and you will be taxed and may be penalized.

- Have you updated your beneficiary selection since you got married, had children, or got divorced? To avoid inconsistencies in your estate plan, coordinate your beneficiary selections for your retirement plans with your estate plan.

- To avoid penalties, you must begin taking distributions from any of your regular Individual Retirement Accounts by April 1 of the year following the year you turn 70½.

- Tax-deferred retirement plans were created to encourage people to save for retirement, but not as a means of accumulating wealth to be passed on to children or grandchildren. By attempting to pass this asset directly to your heirs through your estate, you may lose up to 80% of the plan assets to taxes. Ask your tax and estate planning advisors about a charitable remainder trust, which not only reduces those taxes significantly, but also provides a generous gift to charity through your estate.
Notes Receivable

**Note Receivable:** A loan for which the borrower gives a written promise to repay the borrowed funds.

Schedule 6 is for listing individuals who owe you money. This includes all promises to repay you money, including mortgages and unwritten loans extended to family and close friends. If you have more notes than the schedule allows for, make extra copies before beginning.

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<thead>
<tr>
<th>Note Receivable – Schedule 6</th>
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<td><strong>DESCRIPTION</strong></td>
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</tr>
<tr>
<td>Phone #</td>
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<tr>
<td><strong>Note Terms</strong></td>
</tr>
<tr>
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</tr>
</tbody>
</table>

**Instructions: Notes Receivable — Schedule 6**

1. For each note, list the background information of the borrower.
2. List the note terms.
3. Under “Current Status,” enter the balance due and the number of months remaining on the note.
4. Total the current value of all your notes receivable.
5. Enter the total current value of all notes receivable on your Net Worth Statement as an investment asset under “Notes Receivable.”
6. Place your notes receivable in your Financial Organizer and any backup information in your Personal Filing System.

- If you own or are considering investing in notes secured by real estate, be sure the underlying property values are greater than the note. Real estate values in different parts of the country fluctuate continually. To protect your investment, a conservative rule of thumb to follow is to make sure that a loan does not exceed 75% of the appraised value of the property.
- If you sell your residence or any other asset and lend money to the purchaser, using the sold asset as collateral for the loan, be certain to get the buyer’s tax identification number. The IRS requires that tax identification numbers be supplied in conjunction with all sources of income.
Real Estate

Schedule 7 is for listing real estate you own, including homes, rental units, vacant land, or commercial buildings. Also include any fractional share you may have in time-shares or other real estate, unless it is set up as a partnership.

Instructions: Real Estate — Schedule 7

1. Determine if the property is personal or investment property.
   • If the property is your personal residence and you plan to live in it for some time, classify it as personal. If you own a lot and plan to build a first or second home on it, classify it as personal.
   • If you own a lot and plan to hold it for future sale, classify it as investment.

2. Enter under “Personal” or “Investment” the background information for each parcel or piece of real estate that you own.
   • Examples of “Type of Real Estate” would include residence, vacant land, condominiums, apartments, commercial buildings, etc.

3. Enter how you hold title, percentage of ownership, and the date acquired.

4. List the amount you paid for the property, cumulative cost of the improvements you have made to the property, and your cost basis.
   • The cost basis is what you paid for the property, plus improvements, minus tax adjustments. If it is investment property and not just land, review your most recent tax return for improvement, depreciation, and cost basis information.
   • Your purchase price can be found in the closing papers you received when you purchased the property. If you can't find them, ask for a set from your title insurance company.
   • Records of your home improvements should be kept in your Personal Filing System under Financial Position—Residence—Improvements.

5. List any estimated net income or loss on your investment property for the prior year.
   • Net income is the difference between property income and expenses.

6. List the current value for the property.
   • Determine this by looking at comparable property that is for sale or has recently sold. You may also ask the opinion of a respected residential or commercial real estate agent.

7. Figure the total current value of your personal and investment real estate, respectively.
8. Enter the total current value of your personal real estate on your Net Worth Statement under “Personal Assets Real Estate.”
9. Enter the total current value of your investment real estate on your Net Worth Statement under “Investment Assets — Real Estate.”
10. Place your deeds in your Financial Organizer and other related papers in your Personal Filing System.

Set up two files for each piece of real estate that you own. In one, keep all closing documents and financing records. In the other, keep all receipts for improvements to the property. When you sell the property, these receipts will save you significant money by increasing the cost basis of the property and thus reducing your taxable income.

Homeowners can exclude up to $500,000 in gains from the sale of a principal residence ($250,000 for single taxpayers). This tax break is renewable every two years. There are complex rules covering five-year ownership, unforeseen events, percentage of time when the house was used as primary residence, and marital status.

If your property portfolio is growing and you do not have time to manage it, consider hiring a property manager to assist you.

Partnerships

**General Partnership:** A partnership in which each partner shares in the control and management of the business, and each partner is personally liable for the entire amount of partnership debts.

**Joint Venture Company:** An organization of two or more persons or companies that is formed for the purpose of working on a project together.

**Limited Liability Company (LLC):** A LLC is a state-approved hybrid entity where the principal assets of the owners (other than their interest in the LLC) are not subject to the risk of creditor claims for the company's business debt. All owners participate in management, and profits and losses can be shared as agreed upon by the members. Most LLCs are designed to be taxed as a partnership, thereby avoiding the double layer of taxation encountered in a “C” corporation.

**Limited Partnership:** A partnership in which there must be at least one general partner who is responsible for the management and debts of the company, and one or more limited partners who have no control over management and are liable for indebtedness only to the extent of their investment.
Schedule 8 is for recording your partnership interests. These include joint ventures, general partnerships, and limited partnerships.

**Instructions: Partnerships — Schedule 8**

1. Enter the legal name and federal identification number of each partnership.
2. Enter the type and brief description of the partnership. Types of partnerships include: limited partnership, general partnership, or joint venture.
3. Enter how you hold title and your percentage of ownership.
4. Enter the date acquired or entered into.
5. Enter the amount paid for your interest and your cost basis. Your cost basis can usually be obtained from your Form K-1 issued by the partnership.
6. Enter your estimated net income or loss.
7. Enter the current value of your interest in the partnership. The current value can be determined from offers to buy, the value of comparable companies, your buy-sell agreement, or your partners’ or advisors’ opinions.
8. Total the current value of your partnerships, then enter the total on your Net Worth Statement under “Investment Assets—Partnerships.”
9. Place your certificates of partnership and partnership agreements in your Financial Organizer and the rest of your papers in your Personal Filing System.

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
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<tbody>
<tr>
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<th>Type</th>
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<tbody>
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<tr>
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<th>Address</th>
<th>ID #</th>
<th>Type</th>
<th>Describe Partnership</th>
</tr>
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<tbody>
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<th>Address</th>
<th>ID #</th>
<th>Type</th>
<th>Describe Partnership</th>
</tr>
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<table>
<thead>
<tr>
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<th>Address</th>
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<th>Type</th>
<th>Describe Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**TOTAL**

**PARTNERSHIP INTERESTS $2,000**
Business Interests

“C” Corporation: The most common form of corporate structure used by larger companies, although it can be used by a single person. A “C” corporation gives its shareholders liability protection, but can cause double taxation; it taxes the corporation for any profits and then taxes the individual shareholders for their share of the profit that is distributed. Unlike with a partnership, tax losses for the corporation cannot be passed on to individual shareholders.

Limited Liability Company (LLC): An LLC is a state-approved hybrid entity where the principal assets of the owners (other than their interest in the LLC) are not subject to the risk of creditor claims for the company’s business debt. All owners participate in management, and profits and losses can be shared as agreed upon by the members. Most LLCs are designed to be taxed as partnerships, thereby avoiding the double layer of taxation encountered in a “C” corporation.

“S” Corporation: Similar to a general partnership, except that it gives shareholders the liability protection of a corporation. (Shareholders may deduct losses from their taxes only to the extent of their equity investment.) “S” corporations are limited to 100 shareholders for tax years beginning after 2004.

Sole Proprietorship: An incorporated business having only one owner.

Schedule 9 is for individuals who own business interests. Use this form to list businesses other than partnerships in which you are actively involved.
### Business Interests – Schedule 9

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>% Owned</th>
<th>Date Acquired</th>
<th>Amount Paid</th>
<th>Current Value</th>
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<tbody>
<tr>
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<td>321 Winding Creek, San Jose, CA 95113</td>
<td>100</td>
<td>1/1/86</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Home Office</td>
<td>Software Consulting &amp; Sales</td>
<td>1/1/86</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Instructions: Business Interests — Schedule 9**

1. Enter the legal name and federal identification number of each business interest.
2. Enter the type and brief description of business interest (see above definitions).
3. Enter how you hold title and what percent of the business you own.
4. Enter the date acquired.
5. Enter the amount paid for your interest and your cost basis. Your cost basis can be calculated by what you paid for the business interest plus or minus any tax adjustments.
6. Enter your estimated net income or loss.

7. Enter the current value for your interest in the business as determined from offers to buy, values of comparable companies, or your Board of Directors’ or advisors’ opinions.
8. Total the current value of your business interests and enter the total on your Net Worth Statement under “Investments Assets — Business.”
9. Place your stock or partnership certificates and agreements in your Financial Organizer and the rest of your partnership papers in your Personal Filing System.

**Tips & Ideas**

- Be sure to coordinate the way you hold title to your business interests with your estate plan.
- Be careful which form of business organizational structure you choose. Sole proprietorships and partnerships give the small business owner the highest exposure to lawsuits. If you invest in a corporation or a limited liability company, you should have less lawsuit exposure, but you’re not immune. Make sure you check with your legal counsel on a regular basis to discuss your liability exposure and ways it can be reduced.
Annuities

Accumulated Deferred Annuity: An annuity contract which provides that payments to the annuitant be postponed until a specified period of time has elapsed — for example, 10 years or when the annuitant reaches a certain age. It can be purchased in one lump sum or with periodic (after-tax) payments until the withdrawing process begins.

Annuity: A contract purchased from an insurance company which stipulates that a certain sum will be paid at regular intervals over a certain period of time, such as a lifetime.

Fixed Annuity: Always pays a set amount of income for the life of the contract. The investment risk is borne by the insurance company.

Immediate Fixed Annuity: Begins payments as soon as you purchase the contract, and always pays a set amount of income for the life of the contract. The investment risk is borne by the insurance company.

Private Annuity: An annuity contract that is entered into by private parties, not an insurance company.

Variable Annuity: A regular monthly payment that varies in amount based on the performance of the securities held in the insurance company’s portfolio. These annuities are covered by insurance company laws that shelter gains from current taxation. They may carry more stock market risk than fixed annuities but have greater potential for appreciation.

Schedule 10 is for individuals who own annuities. These include fixed, variable, accumulated, immediate, and private annuities. Do not include tax-sheltered annuities here; list them on Retirement Plans—Schedule 5. If you have more annuities than the schedule allows, make extra copies of Schedule 10.
CHAPTER 2: Know Where You Stand

**Instructions: Annuities — Schedule 10**

1. Enter the owner of the annuity.
2. Enter the plan type. Refer to glossary definitions.
3. Enter the annuitant. This is the individual who will receive the annuity payments.
4. Enter the name and background information of the insurance company that is underwriting or providing the annuity.
5. Enter a brief outline of your plans for this annuity.
6. Enter the estimated rates of returns on the account.
7. Enter the account details under “Terms of Account.”
8. List your primary and secondary beneficiaries for each account and your distribution option.
9. Identify your investment mix among the asset allocation categories listed under “Investment Classification.” Enter the current value for each account.
10. Total the current values of each investment classification and enter this amount on the final line of the schedule. Repeat this step for your estimated income.
11. Total the current values of all your annuities and enter this amount on your Net Worth Statement as an asset under “Annuities.”
12. Place your annuity contracts and year-end statements in your Financial Organizer and other related papers in your Personal Filing System.

- Annuities are not liquid. If you want your money before age 59½, you may incur a 10% early-withdrawal federal tax penalty, plus a possible surrender charge to the insurance company, as well as additional state taxes.
- Investments in annuities are not federally insured, even if you buy them from your bank. Reduce your risk exposure by diversifying. Invest in several companies instead of putting all your holdings in one large contract.
- Contact your insurance agent each year to review your options and to gain updated information on the ratings of any insurance companies. Additional sources of information include the annual stockholder reports (if the company is public), or you can contact the following insurance company rating reviewers: A.M. Best, 800.424.2378, www.ambest.com/; Standard & Poor’s, 212.438.2400, www.standardandpoors.com/; Moody’s Investors Services, 212.553.1653, www.moodys.com; Fitch Ratings, 212.908.0500, www.fitchibca.com. These sources may charge fees for the information provided, so inquire first.
- You can combine your interests in supporting charity and in receiving annuity income by way of a charitable gift annuity. A gift annuity is a contract between you and the charity in which the charity promises to pay an annuity to you (or a person of your choice) for life, in exchange for your gift. In addition to the lifetime income, gift annuities offer income tax, capital gains tax, and estate tax benefits. Consult your financial advisor and your charity for details.
Life Insurance

Accidental Death & Dismemberment Insurance: An insurance policy that pays a benefit if the insured dies by other than natural causes. It also pays a benefit if the insured loses sight, hearing, speech, or the use of a limb from an accident.

Cash Surrender Value: The amount of money a policyholder would receive if the policy were cashed in. This is made up of the policyholder’s cash within the policy, plus any unused premiums, plus any dividends, less the principal and interest of any loans against the policy.

In-Force Ledger Illustration: A report prepared by insurance companies to illustrate the current and future values of an existing policy.

Term Life: Provides a cash benefit if death occurs while the policy is in force. The insurance protection is for a specified period of time. Once the period ends there are no death benefits or cash values. This type of life insurance is usually the least expensive on a year-by-year basis, with premiums gradually increasing each year.

Universal Life: A policy that combines term and whole life insurance elements. It has a death benefit and cash values. The policy is flexible and allows you to adjust the allocation of premium payments between death benefits and cash value savings.

Variable Life: Also a combination of term and whole life. It has a death benefit and cash values. Like universal life, this policy is flexible and allows you to adjust the allocation of premium payments between the death benefit and the cash values. Variable life policies offer additional flexibility by allowing you to invest cash values in various combinations of money market, stock or bond funds.

Whole Life: Also known as “Cash Value Life,” this provides life insurance coverage and has a savings element built into the policy. The premiums are higher, but cash values can build inside the policy. If your insurance needs are long-term (10 years or more), a good whole life policy could be less expensive than an annual renewable term policy.

Schedule 11 is for individuals whose lives are insured through personally owned policies, employee benefits, and accidental death policies.
Instructions: Life Insurance — Schedule 11

1. Enter the name of the insured. A life insurance policy (contract) may have one or several parties involved:
   - The “Insured” is the party whose life is insured.
   - The “Owner” is the party who owns and usually pays for the policy.
   - The “Beneficiary” is the party who will receive the proceeds upon the death of the insured.

2. List the insurance company, the account number, and the purpose of the insurance policy.

3. Identify the owner, then the primary and secondary beneficiaries.

4. List the death benefit. The death benefit is the amount the insurance company will pay at the time of the insured’s death, which is the “face” death benefit, plus any supplemental benefits, minus any current loans against the policy.

5. Determine and list the cash value for your policies. The best way to determine these is by contacting your life insurance agent or insurance company. These figures should be verified by comparing them with your most recent policy statement. If the information seems out of balance, ask your company to explain.

6. Enter the total of all cash values on your Net Worth Statement as an asset under “Life Insurance.” If you have any life insurance loans, list them on your Loans—Schedule 14.

7. Place your life insurance contracts and year-end statements in your Financial Organizer and other related papers in your Personal Filing System.

Tips & Ideas

- Be sure to coordinate ownership and beneficiary selection of your life insurance contracts with your estate plan.
- Contact your life insurance agent each year and ask for an in-force ledger illustration to review your options. Also obtain updated ratings on your insurance company. If you have borrowed from your cash values and are making interest payments, which are not deductible as consumer interest, ask your agent to discuss other options with you. You may be able to exchange your old policy “tax free” for one that better meets your current needs.
- You can make a gift to charity of a paid-up life insurance policy and receive an income tax deduction equal to the cash surrender value of the policy. You can also create a new policy and name the charity as the owner and beneficiary of the policy. By doing so, you are entitled to a charitable deduction for each of the premium payments you make on that policy. The charity then receives the face value of the policy upon your death.
Personal Property

Schedule 12 is for recording personal property not already included in the previous schedules, such as your furniture, appliances, furnishings, jewelry, works of art, sports equipment, and other personal assets. This will give you a broad overview of the personal property you own.

As you enter the current values for your property, be careful not to overvalue items such as automobiles, computer equipment, car phones, and home entertainment items — these may not be worth as much as you think. Estimate a price based on a reasonable fair market value. A review of the classified sections of your local newspaper will provide a good start for determining the value of personal property.

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>OWNERSHIP</th>
<th>DATE PURCHASED</th>
<th>PURCHASE</th>
<th>COST BASIS</th>
<th>CURRENT VALUE</th>
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<td>Automobile #1</td>
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<td>21,000</td>
<td>$9,000</td>
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<td>Automobile #2</td>
<td>Comm. Prop</td>
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<td>Automobile #3</td>
<td>Comm. Prop</td>
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<td></td>
</tr>
<tr>
<td>Sports equipment</td>
<td>Comm. Prop</td>
<td></td>
<td></td>
<td>4,000</td>
<td>3,000</td>
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<tr>
<td>Computer</td>
<td>Comm. Prop</td>
<td></td>
<td></td>
<td>4,000</td>
<td>2,000</td>
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<tr>
<td>Grandmother’s jewelry</td>
<td>Comm. Prop</td>
<td>3/92</td>
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TOTAL HIGH VALUE POSSESSIONS: $16,000

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<td>Family Room</td>
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<tr>
<td>Dining Room</td>
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<td>5,000</td>
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<tr>
<td>Den/Study</td>
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<td></td>
</tr>
<tr>
<td>Bedroom #1</td>
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<td>Bathrooms</td>
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<td>Utility Room</td>
<td></td>
<td></td>
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<tr>
<td>Dog/Pet Room</td>
<td></td>
<td></td>
</tr>
<tr>
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TOTAL HOUSEHOLD PROPERTY: $32,000

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<td></td>
<td></td>
</tr>
<tr>
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</table>

TOTAL OTHER PERSONAL PROPERTY: $0

TOTAL PERSONAL PROPERTY: $50,000
Instructions: Personal Property — Schedule 12

1. Write a brief description of the high-value possessions in each room of your residence.
2. Enter how you hold title, if you hold title differently from your name (or names, if you're married).
3. Enter the purchase date, your cost basis, and the current value of the property.
4. Enter the total current value of all your high-value possessions.
5. Estimate the current value included in each of your living areas, less the high-value possessions accounted for above.
6. Enter the total current value of your household property.
7. Enter under “Other Personal Property” tax refunds, earned but not received income (such as paychecks not yet received for last month), trusts, and other assets that don't fit in any other category.
8. Total all personal property and enter that figure on your Net Worth Statement as an asset under “Personal Property.”
9. Place any ownership documents, such as automobile ownership papers and art authenticity certificates, in your Financial Organizer and other related papers in your Personal Filing System.

- Record a detailed inventory of your personal property and update it annually. Consider photographing or videotaping your possessions and storing the photographs or videotape outside your home or in a fireproof safe or safe-deposit box. This procedure will facilitate making an insurance claim and receiving your entitled benefits, should you ever incur a loss.
- Contact your insurance agent each year to review your insurance options and to make sure you are adequately insured.
- Items of personal property can be used as charitable gifts, including jewelry, art, furs, coin collections, antiques, even cars and boats. Items valued at $5,000 or greater must be accompanied by a “qualified appraisal” in order to qualify for a charitable deduction. The amount of your deduction may vary depending upon how the item will be used by the charity. Consult your financial advisor regarding these rules.
Other Investment Property

Schedule 13 is for recording other investment property, such as art, collectibles, hard money assets (i.e., gold coins and rare stamps), and any other investment property which you have not included in the other schedules. Investment property is considered to be any property you have purchased that may be appreciating in value and which you intend to sell at some time in the future for a profit.

Instructions: Other Investment Property — Schedule 13

1. Write a brief description for each asset you wish to classify separately.
2. Enter how you hold title, if you hold title differently from your name (or names, if you’re married).
3. Enter the date acquired, your cost basis, and the current value as determined by a qualified appraiser, expert, or your “researched opinion” for each item.
4. Total the current values from all categories of other investment property.
5. Enter the total for other investment property on your Net Worth Statement as an asset under “Other Investment Property.”
6. Place any ownership documents, such as art, stamp, or coin authenticity certificates, in your Financial Organizer and other related papers in your Personal Filing System.
List Your Liabilities

You have now completed the documentation of your assets. Next, do the same for your liabilities. As soon as you complete the liabilities schedules, you will have all the documentation about your finances that you need to prepare your Net Worth Statement later in this section.

As you fill out the liabilities schedules, follow the same procedure as you did for the assets schedules. Simply complete the forms, transfer the totals for each to your Net Worth Statement, and file the completed schedules in your Financial Organizer.

Some people treat their liabilities like monsters under the bed; the less thought about, the better. Other people are overly casual. Senator Everett Dirksen once said, “A billion here, a billion there, and pretty soon you’re talking about real money!” Both extremes can lead to problems.

Loans

Fixed or Variable Rate Loans: Fixed rate loans charge a set annual interest rate for a specific number of years, for example, 5% interest per year for 15 years. Variable rate loans normally start with a reduced rate for a short period of time, called a “teaser rate,” and then adjust to a market rate index. Due to this teaser rate, variable rate loans are usually less expensive in the short term. In the long term, depending on what happens to interest rates, either loan could be better. Variable rate loans have the potential of lower payments if interest rates are stable or go down, but they also have the risk of higher payments if rates go up.

Home Equity Line of Credit: A line of credit using the equity in your home as collateral. The interest may be deductible even if you use the funds to buy a car.

Mortgage: Sometimes called a deed of trust. It is a loan using your property as security for the loan.

Revolving Loan (Credit): A loan that can be paid down or borrowed against, such as a credit card or a line of credit. These are also called open-ended loans.

Second Mortgage Loan: A loan secured by property that is secondary to a first mortgage. This is typically a home remodeling loan or a debt consolidation loan. The term is usually from 3 to 15 years.

Student Loans: Special loans designed to help students and families fund the high costs of education. Examples include extra-credit loans, Stafford loans, Sallie Mae loans, and Educational Resources Institute loans. For information regarding these and other loan programs, contact the specific school you are interested in or a specific financial institution that markets such loans.

Term Loan (Credit): A loan that is repaid over a specified period of time.
Schedule 14 is for recording each of your loans. These include home mortgage, real estate, home equity line of credit, life insurance cash value loan, 401(k) loan, auto loan, student loan, and any other personal or investment loans except credit cards. Do not estimate any unpaid household bills — such as telephone, gas and electric, cable TV — here as they are recorded on Schedule 16. Record any outstanding credit card balances on Schedule 15.

**Instructions: Loans — Schedule 14**

1. Enter the background information on each lender and loan.
2. Note the type of loan and whether it is personal or investment.
3. Indicate the purpose of the loan.
4. Enter the loan terms. This can usually be found on the front page of your loan document.
5. Enter the amount owed and the number of months remaining on your loan.
   This can usually be found on your loan amortization schedule if you were given one, in your last month’s statement, or in your loan payment book.
6. Total the current amount owed for all personal loans and enter the amount on your Net Worth Statement as a liability in the “Loan” section.
7. Place your loan documents in your Financial Organizer and any support information in your Personal Filing System.
Be careful that you do not incur debt by over spending.

Avoid high interest debt, especially if you might not be able to repay immediately.

If interest rates decline, be certain to compare your existing loan rate and terms, especially for home mortgages, with those currently available. You probably will realize substantial savings by refinancing.

To determine whether or not refinancing will really save you money, ask a loan officer at your lending institution to provide the following figures:

<table>
<thead>
<tr>
<th>Example</th>
<th>Yours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current monthly payment</td>
<td>$1,500</td>
</tr>
<tr>
<td>Proposed monthly payment</td>
<td>$1,200</td>
</tr>
<tr>
<td>Estimated monthly savings</td>
<td>$  300</td>
</tr>
<tr>
<td>Total refinancing and closing costs</td>
<td>$3,000</td>
</tr>
<tr>
<td>Break-even month ($3,000/$300)</td>
<td>10 months</td>
</tr>
</tbody>
</table>

To find out how many months it will take you to break even, divide the total refinancing/closing costs by your monthly savings. The result will tell you the number of months you must keep your new mortgage before you will begin to realize any monthly payment savings.

If your loans are personal and unsecured, consider refinancing them with a secured line of credit against your house. Consumer interest is no longer deductible, unless it is secured against your primary residence and meets certain other criteria.

If you buy a home and the seller takes back financing from you, be sure to get the seller’s tax identification number. The IRS requires it to substantiate your deductions.

Use the seven-year rule of thumb to choose between a variable or fixed rate for your mortgage. If you plan to keep your mortgage for more than seven years, choose a fixed rate mortgage. If you plan to keep your mortgage fewer than seven years, consider a variable rate mortgage.

If you own a home and do not have a home equity line of credit, consider getting one as soon as possible — even if you do not need the financing now! They are often free or low in cost, so don't ignore this opportunity. If and when you do need cash, it is possible that your creditworthiness may not be as good as it is today, causing you difficulty and delays in getting a loan. Plan ahead — it’s the perfect “insurance policy.”

If you do not own a home, consider getting an unsecured line of credit. The interest is not deductible as consumer interest but could be deducted as a business expense. The rates are usually a great deal lower than credit cards. Again, such a line of credit also provides you with an “insurance policy” by making a certain amount of cash available in an emergency. You will not have to go “loan shopping” when your financial situation is not at its best.

Be careful when looking for an unsecured line of credit. Many lines of credit are “interest only” and have to be paid back at the end of 12 months. Try to find a loan that is long-term interest only and can be converted into a term loan once it matures.

Avoid late payment fees; always pay your bills before their due dates.

Don't over use your credit; keep your balances low on your credit cards.

Keep your total monthly housing expenses (including mortgages and secured lines of credit principal and interest payments, homeowners insurance, property taxes, condo fees) should not exceed 28 percent of your gross monthly income. Your total debt service, including your house payments plus all other debt payments, should not exceed 36 percent of your gross monthly income. These percentages may be adjusted some according to the costs of living and real estate prices where you live.

Pay off your debt rather than moving it around.

Don’t open new credit cards just to increase your available credit.
Credit Cards

Schedule 15 is for recording all your credit cards. This schedule will help you inventory all your key credit card information in one location. List all of your cards regardless of their outstanding or zero balances.

### Instructions: Credit Cards — Schedule 15

1. Enter the company name for each credit card you possess.
2. Enter the expiration date.
3. Note the “other benefits” you receive from the card, such as airline miles, department store or automobile purchase discounts.
4. Under “Ownership,” identify in whose name the card was issued and how the card is used. Indicate “Personal” for credit cards that are used for or have a balance for personal expenditure. Indicate “Investment/Business” for credit cards that are used for or have a balance for investments, such as real estate or business interests.
5. Enter the account numbers and phone numbers to call in case of stolen or lost cards.
6. Enter the annual fees and credit limits.
7. Indicate the interest rate for outstanding balances.
8. Enter your total outstanding balance.
9. Add up any credit card transactions, an estimate of any interest and charges, and any outstanding balance to estimate your balance due.
10. Total the outstanding balances for both personal and investment accounts as of the date of the Net Worth Statement you are creating. Enter the total on your Net Worth Statement as a personal or investment liability under “Credit Cards.”
11. Place a list of all credit card numbers and emergency phone numbers in your Financial Organizer. Place the credit card agreement for each card in your Personal Filing System.

<table>
<thead>
<tr>
<th>Credit Cards – Schedule 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BANK CARDS</strong></td>
</tr>
<tr>
<td><strong>Name</strong></td>
</tr>
<tr>
<td>ABC</td>
</tr>
<tr>
<td>Travel miles, rental car discounts</td>
</tr>
<tr>
<td>XYZ</td>
</tr>
<tr>
<td>1% Rebate</td>
</tr>
<tr>
<td><strong>DEPARTMENT STORE CARDS</strong></td>
</tr>
<tr>
<td><strong>Name</strong></td>
</tr>
<tr>
<td>ABC</td>
</tr>
<tr>
<td>Travel discounts, 3.9% till October</td>
</tr>
<tr>
<td><strong>GAS CARDS</strong></td>
</tr>
<tr>
<td><strong>Name</strong></td>
</tr>
<tr>
<td><strong>OTHER CARDS</strong></td>
</tr>
<tr>
<td><strong>Name</strong></td>
</tr>
</tbody>
</table>

| **TOTAL PERSONAL** | **$225** | **$2,000** |
| **TOTAL INVESTMENT** |

*Sample entries are not intended to be complete.*

If your credit card expenditures or balances are out of control or you are not using them responsibly, lock them up and use cash to pay for all of your expenditures. Then you cannot go further into debt without borrowing.

Credit card companies are aggressively competing for your business. If you regularly carry an outstanding balance, take time to determine which companies offer the lowest rates. This could save you a significant amount in interest and fees.

Watch your annual fees! Many credit cards start out by offering you an account free of annual fees. Then, they start charging you $25, $50, or $75. By using fewer cards, you can reduce these needless fees. If you are charged a fee, call your credit card company. Tell them you were offered a credit card with no annual fee, and they will probably remove it for you!

Pay off your credit card bills each month. The interest charged is quite high and, in most cases, not tax-deductible. If you do not have the cash to pay off the credit cards, consider obtaining or accessing your home equity line of credit, which usually has a much lower interest rate and the interest is probably deductible.

If you have a difficult time keeping track of your credit card expenditures and are constantly overspending, consider logging them directly into your check register in a different color ink (or in a separate check register) and subtracting them from your bank balance. This will give you an accurate cash position at all times and help you avoid unwelcome surprises.

If you use several store, gas, and other credit cards, consider storing them and using only one low-interest credit card.

If you are married, and each of you handles a different part of the household finances, then each of you should use a different card.

If you own a business, use one card exclusively for the business.

If you have credit card debt or must incur it, consider the low-interest-rate introductory offers made by some credit card companies. Pay close attention to those special offers that may be good only for an initial time period, after which new purchases and outstanding balances can be charged at a higher interest rate. Keep track of the length of time of the offer. Transfer your balance to another card before the benefit period runs out. As long as these offers keep coming, and you keep rolling over your balances, this can result in a very low financing cost to you.

Do not keep more credit cards than you need. If you have several credit cards that you do not use and you apply for a loan, the lender may reduce the amount of credit for which you currently qualify by considering the credit limits on all your credit cards — used and unused.

Get Uncle Sam to chip in on your credit card debt! If you are offered a no-fee, no-points home equity line of credit, sign up. Then use the line of credit to pay off higher-cost debt. An average balance of $3,000 on a 20% credit card costs $600 per year in interest. With a 3.5% home equity loan, the carrying cost is $123 — and that’s deductible! So the government reduces your taxes $34 if you are in the 28% tax bracket.
Other Debts

Schedule 16 is for recording all other debts not covered on previous forms, such as unpaid utilities, mortgage payments, property and potential capital gains taxes, and other unpaid household bills. To do a true Net Worth Statement, you should determine the built-in gains if you were to sell all your assets, and compute your income tax liability. However, if you are not putting together a Net Worth Statement for an estate or a divorce and these amounts are not material, you may want to skip this schedule.

### Instructions: Other Debts — Schedule 16

1. Enter a description of each debt.
2. Under “Ownership,” identify who incurred the debt and whether the debt is personal or investment/business-related.
3. Enter the due date when each debt must be repaid.
4. Enter the finance rate and, if applicable, the dollar amount of any finance or late charge.
5. Enter the current value (the remaining balance) of each debt.
6. Subtotal all your other personal and investment/business debts and enter the totals on your Net Worth Statement as personal or investment liabilities under “Other Debts.”

#### Other Debts Schedule — 16

<table>
<thead>
<tr>
<th>OTHER DEBTS</th>
<th>DESCRIPTION</th>
<th>OWNERSHIP USE — PERSONAL OR INVEST/BUSINESS</th>
<th>DUE DATE</th>
<th>FINANCE RATE (%)</th>
<th>FINANCE CHARGE</th>
<th>CURRENT VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>CP</td>
<td>Personal</td>
<td>1/10</td>
<td>$</td>
<td>$300</td>
<td></td>
</tr>
<tr>
<td>Misc. Household</td>
<td>CP</td>
<td>1/10</td>
<td>$700</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Additional Net Worth Information

The Additional Net Worth Information form accompanies your Net Worth Statement. Use it to document any special circumstances or exceptions which are not included in the various schedules but which affect your financial position.

A prime example would be a Coverdell Education Savings Account (ESA) set up to fund your children’s education costs. An ESA is an account to which nondeductible annual contributions of up to $2000, per child, may be made until the child turns 18. The funds grow tax free and can be used for the child’s qualified higher-education expenses without incurring taxes. There are income earnings limits to qualify for a ESA.

Also use this form to list any assumptions you made while completing the various schedules.

Instructions: Additional Net Worth Information

1. Address the six questions in the schedule.
2. List financial details of any agreements you have entered into that affect your current or future financial circumstances; for example, leases, divorce, business agreements, employment agreements.
Determine Your Net Worth

Now that you have completed organizing your assets and liabilities and have transferred totals from the various schedules to your Net Worth Statement, it is time to determine your net worth.

This process will either reassure you that financial control and success are within reach, or it may point out problems that need to be addressed. Either way, you will know your status and be in a position to take control and improve your situation.

Instructions: Net Worth Statement

1. Subtotal your Personal Assets and Investment Assets.
2. Subtotal your Personal Liabilities and Investment Liabilities.
3. Total your Personal Assets and Investment Assets.
4. Total your Personal Liabilities and Investment Liabilities.
5. Subtract your Personal and Investment Liabilities from your Personal and Investment Assets to determine your personal net worth.
6. Store your Net Worth Statement and support schedules in your Financial Organizer or forms binder.

Throughout this section, your financial PARTNER has given you solid tips and ideas to improve your financial position. Take a moment now to review them and list all appropriate actions on your Things to Do list.
Track Your Financial Progress

Net Worth Comparison

It is useful to update your Net Worth Statement annually and compare it to prior years. A good time to do this is at year end or during National Financial Literacy Month – April.

The Net Worth Comparison form is provided to track your Net Worth Statements over the years, giving you an overview of your financial progress.

Whenever you update your Net Worth Statement, fill in a new column on the Net Worth Comparison form with the updated information. Then compare the new data to that of the prior period and analyze why any changes occurred. If your financial position is not improving, determine why. Remedy any small problems before they become big ones.
### Instructions: Net Worth Comparison

1. Enter the date of your latest Net Worth Statement.
2. List the values for each asset and liability.
3. Compare and analyze any changes that have occurred since your previous Net Worth Statement. Each year ask yourself, Why have my personal and investment assets grown or declined? Was this due to increased savings, higher returns on investments, accelerated loan reduction, a drop in the stock market, poor investment selection, or a loss of employment income? Was this a temporary situation, such as a stock market fluctuation or an interest rate rise that caused bond values to decline? Was it a more permanent problem, such as a note receivable that’s uncollectible or a lawsuit judgment that is being paid off? Or are you spending more than you make? In the following chapters, your financial PARTNER will be providing you with many tips and strategies for improving your financial position.
4. Make any appropriate adjustments to avoid future financial problems. After you compare and analyze your situation, make a list of possible strategies and priority items, then implement them.
CHAPTER 2: Know Where You Stand

Let’s Review the Essentials

Here are the essential principles to managing your net worth

1. Understand what you own and owe
2. Annually compile a complete inventory of your assets and liabilities
3. Annually compare your net worth statement with last year’s and evaluate your progress
4. Annually check property titles and beneficiary selections to make sure they meet your estate planning wishes
5. Build an appropriate cash reserve with a back-up line of credit
6. Avoid incurring debt by over spending.
7. Avoid high interest debt.
8. The planning tips and ideas covered in Chapter 2

Having completed the process of determining your assets, liabilities, and net worth, you’ll find that managing your money is easier. It’s like straightening every closet and cupboard in your house — it takes a lot of effort at the outset, but only minimal energy and time if you keep things organized from that point on.

As you put the pieces of your financial picture together, you may have been surprised by some of the information assembled. Or you may simply have filled in the details of what you already knew. In either case, you’ve gained by bringing a new level of organization to your financial life.

Just as important, gathering this data no doubt heightened your awareness of your own financial needs, choices, and issues. When it comes to managing your money, that kind of awareness is one of the real keys to success.

Now that you know your net worth, it’s time to look at the dynamics of your money — where it comes from, where it goes, and how you might want to change that.
“My philosophy is that not only are you responsible for your life, but doing the best at this moment puts you in the best place for the next moment.”

OPRAH WINFREY
CHAPTER 3
Gain Control of Your Cash Flow

Finding the Balance That Works for You

Here’s where you really get down to understanding your finances: where does your money come from, and where does it go?

For many people, the very idea of cash flow management conjures up unpleasant images and feelings. It has associations with making strict budgets, constantly pinching pennies, and denying ourselves the pleasures in life. Even if you think it’s a good idea to manage your spending and saving habits, a negative emotional reaction is likely to undercut your motivation to create and stick with a good cash management program.

But the fact is, putting yourself in spending handcuffs isn’t what cash flow management is all about. It’s really about understanding cash flow and then making clear and deliberate financial choices with strong follow-through. You should use your money to fulfill your own needs and priorities, instead of simply letting money flow along with your emotions, impulses, and habits. You should also develop financial guideposts so you won’t find yourself — weeks, months, or years from now — helplessly wondering where all your money went.

“Beware of little expenses; a small leak can sink a great ship.”

Benjamin Franklin
When you really think about it, managing your money is a way to gain control of your life. You’re the one who should be in charge of the choices and trade-offs. If travel is what you crave, or if you like to eat in upscale restaurants, that is perfectly OK, provided you work it into your overall financial plan.

With a complete and realistic cash flow plan, you’ll be able to enjoy life’s pleasures without guilt, knowing that you’re working toward other financial goals and managing your money properly. Cash flow management can be an important enabling force, helping you cut down on items and services you don’t really need to help you achieve what you want most in life.

You may even discover that you get an unexpected degree of satisfaction from saving and investing. People who succeed in creating and sticking with a cash flow management plan often find the process itself reshapes their priorities. Getting a bank statement that shows a hefty balance or seeing a significant jump in your investment portfolio can be a bigger thrill than a major shopping spree.

The objective is to figure out what really matters to you, define your personal goals, and then determine how to use your resources to attain them. With the Cash Flow Management System, you’ll find the balance of spending, saving, and investing that works best for you.

As you become more systematic and strategic about making the most of your money, you’ll begin to see new opportunities. One of the biggest benefits of effective cash flow management is a new awareness and a different kind of attitude toward money — a new way of thinking that will help with your spending and financial decisions.

Common Mistakes to Avoid In Cash Flow Management

- Spending more than you make
- Incurring debt by over spending
- Not systematically tracking your income and expenditures
- Not using sound cash flow management techniques
- Not resisting impulse spending
- Not having a sufficient emergency cash reserve and a backup line of credit
- Not teaching children and grandchildren the essential principles of cash flow and smart personal financial management

The objective is to figure out what really matters to you, define your personal goals, and then determine how to use your resources to attain them. With the Cash Flow Management System, you’ll find the balance of spending, saving, and investing that works best for you.

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Cash Flow Management System

In simplest terms, cash flow management means figuring out what resources you have and deciding how you want to allocate them for spending, saving, and investment. If you already have a good handle on your money, financialPARTNER will help you refine and build on your current program. The Cash Flow Management System adapts to any cash management software, chart of accounts, or other cash management/bill-paying system you may already be using. If you’ve never had a cash flow management system, financialPARTNER will give you all the tools you need to build one.

A computer can be especially helpful in cash flow management. In the event you don't have a computer, you can do quite well by manually filling out the financialPARTNER cash flow management forms. Unless you are using the digital forms be sure to use pencil, as your figures will likely change as you begin to develop your working budget.

Your financialPARTNER, check registers, monthly credit card statements, pay stubs, employee benefit statements, and last year’s tax returns are all you need to get started. Then your financialPARTNER provides worksheets, information, and invaluable tips to make your cash flow management work for you.
The financial PARTNER Cash Flow Management System consists of the following:

- The Cash Flow Planner™ will get you into the cash flow process by giving you a clear picture of what you're currently doing with your money.
- The Decision Maker™ helps you make and control your spending decisions.
- The Projected Monthly Cash Flow Planner™ will improve your understanding of your cash flow. You'll be able to distinguish between day-to-day living expenses, savings for retirement, and major expenditures, such as a car, home purchase or improvements, or education funding.
- Use the Actual Monthly Cash Flow Planner™ in order to analyze your spending in greater detail. You will determine which expenditures are fixed and essential — such as taxes, rent, or mortgage payments — and which are discretionary or optional. This process will enable you to make adjustments and changes as your cash flow strategy evolves.
- The Money Manager™ will clearly outline where your money comes from and where it goes, but more importantly, it will show you how to manage it.

In addition, this chapter provides effective cash management techniques to make your life easier, along with cost-cutting strategies and money-saving tips to improve your cash flow.
Get a Picture of Your Spending Habits

The *Cash Flow Planner* was developed to help you quickly and easily get a good understanding of where your money flows. Follow the simple instructions below and you will be on your way to improving your cash flow management.

**Instructions: Cash Flow Planner**

1. Project and list income and expenditures that occur on a monthly, quarterly, semiannual, and annual basis. These figures should be based on as many actual months of income and expenses as can be easily determined.

2. Multiply the income and expenditure figures by the appropriate factor listed under each heading. Enter the results in the budget total column. (For example, if you pay your property insurance premium on a monthly basis, you would multiply that figure by 12 to arrive at the budget total figure.)

3. Divide the budget total by 12 to reach your average monthly figure.

4. Total each section separately: Income, Living Expenditures, Savings/Major Expenditures.

5. Add the figures for “Living Expenditures” and “Savings/Major Expenditures.” Enter that figure on the line for “Total Expenditures.”

6. Subtract Total Expenditures from Total Income. Enter that figure as a positive (+) surplus or as a negative (−) shortage on the last row. Now take a look at your totals. Are you spending or saving more than you are making? Were you aware of how much cash flow you manage? Are you satisfied with what you see?

You should now have an understanding of how you are earning and spending your money. The following are techniques to improve your cash management and spending habits.
Learn Cash Management Techniques

- Use new check registers each year. Keep last year’s register(s) with your prior year tax record. It is also a good idea to skip several lines at the end of each month to make notes or reconcile your statement.

- Annually copy year-end statements. It’s a good idea to annually make a copy of your year-end bank, credit union, brokerage, mortgage, auto loans, student loans, insurance, and other financial institution statements and place them in your Financial Organizer in a safe place. This will be helpful should you get sick and someone needs to help with paying bills and managing your finances.

- Use duplicate checks. This saves time and improves record keeping. Order checkbooks that provide carbon copies of each check.

- Set up a “Paid Bills” file for each year. As you pay bills, staple the duplicate checks to the statement and add them to the Paid Bills file. This avoids having to set up separate files for “gas company,” “telephone,” etc. and keeps your receipts in one place. If you know which receipts are tax-deductible, you can copy them and place them in your current-year tax file or mark them in your check register for easy reference at tax time.

- Use automatic deposits and bank transfers. This saves time and postage and eliminates tedious check writing. Your paycheck, Social Security check, and other monthly income can be deposited automatically into your account. Your bank can pay fixed monthly bills with automatically.

- Eliminate confusion. Using separate credit cards for personal and business transactions eliminates confusion. If you participate in more than one business, use a separate credit card for each. This is also important in limiting your personal liability.

- Log your credit card purchases into your check register. This will help keep your credit card spending on budget and assist you with reconciling your credit card billings and to minimize posting errors.

- Reduce payments and premiums. Save time and money by reducing the number of payments you make for home, auto, and life insurance premiums. If possible, pay once or twice a year.
Choose Ways to Increase Savings

Now the financialPARTNER System begins the process of helping you decide how you can structure your spending in order to increase resources for your future. financialPARTNER suggests different ways to reduce spending; perhaps you can think of more. The choices are entirely up to you. But whatever ideas you choose, think about the rewards. If you painlessly reduce spending in ways that don’t affect you that much, you’ll have more to spend on what you truly value.

Compounded Returns: The earning on earnings from invested principal when it is left to accumulate. This can be interest, dividends, or growth through appreciation.

Pay Yourself First

This is one of the fundamental tenets of money management: give your personal saving and investment a top priority. The easiest way to do this is by setting up automatic monthly transfers from your checking account into your savings or investment accounts.

Even if you start small, the important thing is that you put the power of compounding investment returns to work for you. It is surprising how quickly money can grow over time.

For example, if you were able to reduce your loan rate from 4.85% to 3.75% on a $100,000 mortgage, your payment would drop by $65.58 each month. Take a look at how an investment of those cash flow savings could grow:

Small monthly savings can amount to a large sum of money over time. The key here is to let time work to your advantage. The following strategies will help you explore other sources of extra money.

### Investment Rate of Return on $64.58 per Month

<table>
<thead>
<tr>
<th>Years</th>
<th>6%</th>
<th>8%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>$4,505</td>
<td>$4,745</td>
<td>$5,001</td>
</tr>
<tr>
<td>10 years</td>
<td>10,583</td>
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<tr>
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<td>29,837</td>
<td>38,037</td>
<td>49,037</td>
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<tr>
<td>30 years</td>
<td>64,868</td>
<td>96,242</td>
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</tr>
</tbody>
</table>

![Future Value of Cash Flow Savings](image)
CHAPTER 3: Gain Control of Your Cash Flow

Play the Cost-Cutting, Money-Making Game

Some of these strategies take a bit of time and attention; others are easy to put into action right away. None of them have much immediate impact on your lifestyle; however, over time, they can add up to significant savings. As you think about your spending patterns and needs, you’ll certainly come up with many other ideas. The objective is to save maximum dollars with minimum personal sacrifice — and you’re always a winner!

As you review the following cost-cutting, money-saving ideas, check the boxes for the ones that will work for you. Note them on your Things to Do list and see how much money they can save or make you each month.

Financial

☐ Advisors — Use qualified fee-based financial advisors before making major financial decisions. Prepare an agenda for all meetings to save everyone’s time.

☐ Bank Services — Shop for no-fee or low-fee checking accounts and online bill paying. Order checks by mail from discount houses, and save up to 50% of the cost of ordering them through your bank. Do online bill paying to save time and the cost of postage.

☐ Charitable Contributions — Consider making gifts of appreciated property instead of cash, to avoid capital gains tax. Volunteer time instead of money.

☐ Credit Cards — Use a card with no annual fee and pay off your balances monthly. If you’re carrying a balance with a high interest rate, ask your card company to lower it or transfer to a card with a lower interest rate.

☐ Income Taxes — If you regularly get a tax refund, talk to your tax advisor about reducing your tax payments or withholding during the year. Put that money to work for you, instead of losing the power of compounding and giving an interest-free loan to the government.

☐ Insurance — Consider raising your deductibles or coinsurance on health, disability, auto and homeowner’s insurance. Shop for better coverage at lower premiums.

☐ Investments — Choose a discount broker to buy and sell your investments.

☐ Loans — Refinance high-interest rate loans into lower-interest rate loans. Convert nondeductible consumer debt into a tax-deductible home equity loan.

☐ Property Taxes — If property values in your neighborhood have decreased, explore having your property reassessed to lower your property taxes.

Household

☐ Appliances — Consider upgrading older appliances to more energy efficient models.

☐ Get Physical — Clean your own house, mow your own lawn, wash your own car.

☐ Phone — For telephone and cellular phone services, shop for the best long-distance carriers and rates. Use the phone book or online service instead of directory assistance. Cancel extra phone services.

☐ Subscriptions — Cancel those you can do without. Use the library or look at the possibility of having your business acquire some as business subscriptions.

☐ TV Cable & Internet Services — Cut extra cable services, or consider discontinuing cable altogether.

☐ Utilities — Use energy-efficient light bulbs, and lower your water-heater temperature. Don’t use the dishwasher heater, and turn down the heat or air-conditioning.
Shopping

- Avoid Impulse Buying — Resist the temptation to go shopping just for something to do or to cheer yourself up.
- Buy Durable Goods — Cloth napkins, nondisposable razors, and standard ballpoint pens will cost less than disposables in the long run.
- Buy in Volume Carefully— Shopping online and at discount houses or through buying clubs can mean major savings, provided you stick to your list and don’t overbuy or buy unnecessary items.
- Coupons and Rebates — Use them to your advantage and only if you need the item involved. If there’s a special coupon offered through the newspaper, buy an extra paper for a family member to use on a separate shopping trip.
- Clothing — Shop during sales or at discount outlets (making sure that “discount” prices are actually lower!). Think twice about marked down items — if you wouldn’t buy the garment at full price, you may not really want it. Consider maintenance costs — a garment that needs to be dry-cleaned every time it’s worn may not be a bargain, even if it’s on sale.
- Food — Always use a grocery list. Avoid shopping on an empty stomach. Cut back on prepared foods. Leave the kids at home when you shop, or limit them to choosing one item each.
- Generic Brands — By buying generic brands and using coupons, a family of four can save as much as $2,000 a year on food bills.

Personal

- Automobiles — Make your car last another year. Conserve gas by driving below the speed limit. Change your own oil according to specs. Buy a late-model used car instead of a new car.
- Community Resources — Borrow books from the library instead of buying them. Run at the high school track instead of a club. Go to free community concerts. Set up a bulk food-buying cooperative with neighbors. Trade babysitting with a friend. Have a yard sale to sell what you don’t need.
- Entertainment — View recent movies online or from your cable provider, go to bargain movies or rent videos. Buy used DVD’s instead of new ones. Take the kids for a hike and picnic instead of a trip to an amusement park. Plan vacations you can afford. Lower your golf score by spending less money on the driving range and more time at the free putting and chipping green.
- Forgo Some Little Things — If you decided to forgo some specialty coffee drinks, sodas, and snack foods; saving $3 a day, that would add up to $1,140 over the course of a year. By investing that money with an 8% return, you’d have $16,772 in 10 years, or over $130,000 in 30 years, or over $480,000 in 45 year! and at 10% it would grow to almost $1 million! How would an extra $480,000 / $1,000,000 change your retirement years? or help your grandchildren or favorite nonprofit’s?
- Meals — Take your lunch to work. Eat out at restaurants that offer two-for-one specials or other discounts. People often spend more on restaurant meals or purchases when they pay by credit card. Try making it a habit to pay by cash or check, and see if it makes a difference in your level of spending.
- Memberships — Only belong to clubs that matter to you, especially when dues are involved. Review your membership in clubs on an annual basis.
- Teach Your Kids about Finances — It’s important to help your children develop an understanding of money and how finances work while they are still young. An approach to consider is outlined on the following pages.

How many of these strategies can you use today or in the future? What other cash-saving ideas come to mind? Note them down and put them into action wherever appropriate.
CHAPTER 3: Gain Control of Your Cash Flow

Use the Decision Maker™ to Guide Your Spending

Do you have enough money to meet all your needs and goals? Do you ever feel that you need help prioritizing your spending?

In order to help you decide how best to spend your available cash, use the financialPARTNER Decision Maker. It is designed to provide you with a simple process to help make more informed spending decisions.

Use the Decision Maker to help control impulse spending that affects your short and long-term budgeted goals.

Spending decisions are highly subjective. Different people will have different needs and priorities; there are no absolutes. The important factor here is to identify and control your personal plan for spending. The financialPARTNER Monthly Cash Flow Planner will give you tools to further evaluate and better manage your spending needs.

Now, let’s learn some tools to control impulse buying.

- Pay yourself first through automatic contributions to a savings or investment plan. You will never miss the cash if you never see it.
- Avoid incurring debt by overspending.
- Use grocery bags as trash liners — You’re saving money and helping the environment, too!
- Don’t install carpets in high-traffic areas; carpet will wear out there long before the other areas. Use wood or tile or vinyl instead.
- Keep an extra set of keys handy. Next time you lose your keys you will save a bundle in locksmith fees.
- Don’t “go to the mall” or “online shopping” for entertainment or because it’s raining and you have nothing better to do, as you may end up making unnecessary purchases.
- Buying some things in bulk at large warehouse stores can save money if you follow these rules: Only buy brands you are familiar with and like, otherwise you can get stuck with a case of something you hate; never go in without a specific shopping list. Those stores count on you grabbing some impulse item because you are afraid it might not be there the next time. So what if it isn’t? Do you really need a gallon of soy sauce?

Little Things Do Add Up — If you decided to forgo specialty coffee drinks, sodas, and snack foods; saving $3 a day, that would add up to $1,140 over the course of a year. By investing that money with an 8% return, you’d have $16,772 in 10 years, or over $130,000 in 30 years, or over $480,000 in 45 year, and at 10% it would grow to almost $1 million! How would an extra $480,000 / $1,000,000 change your retirement years? or your grandchildren’s?
Instructions: The Decision Maker

1. Make copies of this form to use as the need arises.
2. Set up your Decision Maker by listing your planned living and major expenditures.
3. Indicate the date needed and the priority level. A is a necessity, B is important, C is optional, and D is not appropriate.
4. List current funds and planned monthly savings allocated for each expenditure, along with the estimated cost.
5. When new spending opportunities come along, list them in the Possible Expenditures window and compare them with your other priorities. Ask yourself, is it: A — a necessity? B — important? C — optional? or D — not appropriate? Compare the possible expenditure with your planned living and major expenditures. What is more important to you?
6. If you prioritize a possible expenditure as an A or B and can make the expenditure by reducing other living expenditures, such as food, travel, or entertainment, without delaying your savings toward planned living and major expenditures — spend the money. If not, you must weigh the current benefits of this expenditure over the future benefits of planned expenditures.
7. If you are not sure, don’t rush a decision. Review this process in a week or two; then make your decision.
8. Store a copy of your Decision Maker in a visible location near where you pay your bills or even on your refrigerator door. This will help you control impulse spending and avoid unnecessary purchases.
CHAPTER 3: Gain Control of Your Cash Flow

Create Your Cash Flow Plan

Discretionary Spending: Funds available after mandatory spending, over which you have control or decision power, for items such as dining out or entertainment.

Mandatory Spending: Required spending, such as a mortgage, lease or loan payment, and other necessities.

Now that you have an overview of your spending, saving habits, and cash management, it's time to make decisions that will enable you to meet your financial goals. The objective in completing the Projected Monthly Cash Flow Planner is to create a budget that will allow you to live within your means, giving you extra money to invest in your financial well-being.

These planning worksheets are designed to make it easy for you to anticipate and prepare for expenses that occur on a random or unforeseen basis. For example, January is often a month with high expenses, with holiday bills arriving at the same time quarterly income taxes are due. Projecting your expenditures into the coming months gives you an opportunity to put money aside today, in order to meet these obligations in the future.

Setting up a cash flow management plan can be a bit different for those who are self-employed and have a variable income. If you have been in business for some time, you can use an average monthly income figure to start with. Pay yourself a monthly salary by setting up a draw from your business account to your personal account. Live on this amount of money to ensure that your spending does not get out of balance during months with high or low income. Ideally, you have at least 12 months of cash flow in reserve in case problems should develop. If that is not the case, or if you're just starting out, you can use your financial PARTNER Cash Flow Management System to start setting aside money.

When dealing with debt reduction
- Payment flexibility is very important
- Avoid paying higher overall interest by paying off highest interest rates loans first
- If you are considering consolidating a group of your loans be careful to consider all your options and run the numbers. This can be complex as some debt may be deductible while others is not, some debt might have a prepayment penalty while other don’t.
- Don’t hesitate in seeking professional assistance.

Don’t hesitate in seeking professional assistance.
### Instructions: Projected Monthly Cash Flow

1. **List projected income and expenditures for the calendar year.**
   
   Use your Cash Flow Planner to get started.

   If you are already well into the calendar year, you have two options: The first is to recap your cash flow year-to-date and then complete your projections for the remaining months. The second option is to complete projections for the remainder of the year, then project your cash flow for the following year.

2. **Total income by month and year.**

3. **Subtotal living expenditures and savings/major expenditures by month and year.**

4. **Total expenditures by month and year.**

5. **Subtract total expenditures from total income by month and year.**
   
   Enter those figures as a surplus (+) or as a shortage (−) on the bottom of the form.

   If you come up with a shortage (−) as your final figure, double-check your math to make sure your calculations are correct. If necessary, keep adjusting the amount you’ve allocated to discretionary spending until you bring your budget in line. If your final figure shows you have surplus (+) funds, allocate those funds for savings and your future.

6. **Note any assumptions you make such as expected bonus or charity contribution, on your Additional Cash Flow Information form (not shown)**

---

### Projected Monthly Cash Flow

#### Payment Period

<table>
<thead>
<tr>
<th>Income Description</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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<td>4,000</td>
<td>4,000</td>
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<td>88</td>
<td>88</td>
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<td>88</td>
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<td>88</td>
<td>88</td>
<td>528</td>
</tr>
<tr>
<td><strong>Pensions/Other</strong></td>
<td>88</td>
<td>88</td>
<td>88</td>
<td>88</td>
<td>88</td>
<td>88</td>
<td>528</td>
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<tr>
<td><strong>TOTAL INCOME</strong></td>
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<td>37,728</td>
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#### Expenditures

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<tr>
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<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>76</td>
<td>76</td>
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<td>76</td>
<td>76</td>
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<td>80</td>
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<td>175</td>
<td>325</td>
<td>6,288</td>
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#### Savings/Major Expenditures

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<thead>
<tr>
<th>Description</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>100</td>
<td>100</td>
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<td>600</td>
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<tr>
<td><strong>Insurance</strong></td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>600</td>
</tr>
<tr>
<td><strong>Pensions/Other</strong></td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>600</td>
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<tr>
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<td>7,455</td>
<td>6,000</td>
<td>6,000</td>
<td>41,155</td>
</tr>
</tbody>
</table>
Track Your Actual Cash Flow

This is where you get a reality check on your budget by discovering whether the spending and saving goals you have set are realistic and whether you can take the appropriate steps to meet those goals.

The data for completing this form will likely come from your pay stubs, checkbook register, and credit card statements. The best time to detail your actual spending is after you reconcile your checking account.

Instructions: Actual Monthly Cash Flow

1. List and total actual income for the current month.
2. List and subtotal actual living expenditures and actual savings/major expenditures for the current month.
3. Total expenditures for the current month.
4. Subtract total expenditures from total income to arrive at a surplus (+) or shortage (−) for the month.
5. Compare your actual cash flow with what you’ve projected. If the two figures are different, determine the reasons why.

If you are spending more than you are making, review the previous pages and make the necessary adjustments to gain control of your cash flow.

The following action steps will help you map out how you are managing your money.
Create a System for Handling Your Money

The Money Manager™

Once you have your priorities and a realistic budget in place, there's still a matter of logistics — namely, how do you make sure your money flows to the right places? This is a particularly important issue in two-income households, where it's not usually clear which income should be used for what purpose and who is spending what. It's easy to run into problems when unexpected expenses or unplanned spending cut into funds originally earmarked for savings.

The financial PARTNER Money Manager helps you create a system for handling the flow of your money so that you can streamline monthly bill paying, maximize savings, and reduce family friction over money!

Automatic Withdrawal: A regular monthly withdrawal from a checking, savings, or other type of cash account to automatically pay a bill such as a mortgage, utility, or insurance premium.

Master Account: A checking or money market account that is used as a control account, where wages and investment income are deposited before being dispersed to spending accounts.

Periodic Spending Fund: A cash flow management account used to hold cash until expenditures such as taxes, quarterly insurance premiums, or other periodic expenditures are due.

Spending Accounts: A checking or money market account that is used to control monthly spending by having a predetermined amount deposited into it each month.

This is how it works. The illustration is an example of a system set up for a dual-wage-earning household.
Instructions: The Money Manager™

1. List your household income and deposit it into a master account. This can be a money market fund account at your bank, savings and loan, credit union, or brokerage house that carries check-writing privileges and earns high money-market interest.

2. List and total your monthly funds needed for periodic spending, based on predetermined estimates from your budget or cash flow plan discussed earlier. These funds accumulate in the master account until the anticipated expenditures, such as income and property taxes, semi-annual insurance payments, and other predictable expenditures, come due.

3. List and total your monthly funds earmarked for savings and investment under “Funding the Future.” These funds can be part of the master account or can be put into a separate investment account.

4. List and total the monthly amount that should be transferred to each partner’s spending account to cover budgeted living expenditures, including personal spending. This can be done by check or automatic transfer. By setting up separate accounts, you avoid misunderstandings over who spent what or who forgot to balance the monthly statement. By setting a cap for spending from each account, savings will be guaranteed.

5. List and total monthly payments for the mortgage, utilities, and insurance that are automatically withdrawn from one of the accounts. Decide which expenses will be handled by which account, and then deposit a pre-determined amount of money into each account.

6. Use the left-hand column to verify that you are not spending more than you’re making.

- Avoid excess banking fees and confusion by making sure you don’t have too many bank accounts. One master account plus one checking account per household partner is usually sufficient. Exceptions would be additional accounts for business interests and real estate investments.

- The Money Manager system can be set up with any financial institution that offers checking and savings accounts. Your existing account might be suitable for this purpose. Automatic withdrawals can be determined as you develop your plan.

- Automatic withdrawals and electronic transactions via the Internet are increasingly popular ways to streamline cash management and save in the process. It costs approximately 49 cents to mail a check. Such a difference in cost on 30 checks per month over 30 years could save you over $5,000.
Introduce Your Children To Personal Finance

Today’s finances are complicated and are getting more complex. The earlier children learn the essential fundamentals of sound personal financial management the better their chances are for financial success.

Very few parents make an organized effort to teach their children these essential fundamentals of sound personal financial management because they do not know or understand them. Due to budget problems, most schools do not have the resources or expertise to teach our children these essential fundamentals so that they can make better informed financial decisions throughout their lives.

If you have children, don’t ignore this responsibility! Take the information that you have learned through your own experiences and with the tools provide here begin exposing your children to the essential fundamentals of sound personal financial management at an early age. Continue assisting and guiding them and communicating with them on family financial matters when they leave home, and encourage your children to do the same for your grandchildren.

There is no specific guidelines as to when and how to expose children to the essential fundamentals of sound personal financial management and financial planning. The following is one approach to consider. The ages used are approximations and may vary depending upon when you start this process and each child’s maturity level.

Getting Your Children Started (Birth through Age 5)

Set up a savings accounts in the name of your child soon after they are born. Give your child a piggy bank and encourage them to put loose coins into it when they have the finger dexterity; do what with adult supervision. When the piggy bank is full, count out the money with your child, log it into a record book and take your child to a financial institution, and deposit the coins into their savings account.

Begin talking to your children about money during this stage. When you go to the store, talk to them about how you trade money in the form of coin, paper, check, or credit for merchandise. When your child begins to grasp these concepts, encourage them to help make decisions on purchases that relate to them, such as toys, rides at the fair, meals or treats.

Also, set up an educational savings fund and encourage grandparents and family to assist. The cost of a quality education has soared in recent years. If it continues to increase at the same rate, higher education will be available only for the affluent and those who plan ahead with the entire family unit.

Your Children’s First Income (Ages 5–8)

Between the ages of 4 and 8, begin giving your child a regular allowance. Start with $1 to $5, or more on either a weekly or semimonthly basis. This money should be given on a consistent basis, without the child having to ask for it.

Discuss with your child what can be done with their allowance, such as saving for future purchases versus buying things today or gifts to a special cause, charity or those less fortunate.

Don’t take this money away from the child as a form of punishment, and don’t link it to household chores. The allowance thereby serves as a money-orientation aid rather than a behavior manipulation tool. As your child matures and accepts more responsibilities, increase the allowance and encourage your child to save part of the increase for the future.

Your Child’s First Business Opportunity (Ages 8–11)

At this stage, give your child opportunities to earn extra money by doing special projects. If you are a small-business owner, give your child the opportunity to work for you for additional money. Or maybe start an online business together around a hobby or mutual interest.

Begin encouraging your child to play money games that involve the buying and selling of items. Discuss how you weigh the buying alternatives: Why would you pay this amount of money for this item? Is it a necessity? Higher quality? A gift? An entertainment toy?
Your Child’s First Budget (Ages 11–14)

Begin teaching your child to budget their own financial needs. Talk to them about a clothing allowance, college education, and special wants that they might have. Teach them about defining objectives, organizing their finances, and developing strategies to reach those objectives.

Start discussing our taxation system and record keeping with them. Walk them through the process of filing their own tax returns. This might include taking them to a meeting with your tax preparer to cover their part of the return.

Acquaint your child with various investment opportunities. An example may be to set up a family game in which participants are given $10,000 in play money to invest as they see fit. At the end of a period of time like 6 months or a year, a reward would be given to the child who increased that make-believe $10,000 the most.

Getting Ready for the Real World (Ages 14–17)

If your child has been grasping the information in the earlier stages, as they mature and get older, help them obtain their own checking account to teach them how to balance their checkbooks, use online bill paying and dealing with credit.

Encourage your child to get an after-school or summer job so they better understand how money is earned and what to do with it. Since they’re earning their own money, ask them to start paying some of their own expenses for social outings and personal expenditures.

With their new earnings encourage them, and if needed with other family members support, to set up and begin to fully fund their Roth IRAs.

Advise them to contact the colleges they are considering to investigate scholarship opportunities and to get a breakdown on costs for tuition, books and, if applicable, room and board, and other related expenses.

Begin exposing them to career opportunities. If possible, make arrangements for your children to spend time with some of your friends or associates at their jobs. This will help increase their understanding of career-path opportunities available to them.

At this stage, it is also important to start helping your child set long-range objectives: the type of job they might desire, the amount of money they would like to earn, and the kind of house they would like to live in. Setting such objectives helps them to understand that their first job after school and the first house they move into will probably not be like Mom and Dad’s. However, through good planning, money management, and earnings, they will be able to reach their objectives over time.

Entering the Real World (Ages 17 & beyond)

Continue to help your child with career counseling. Make sure that the child has a clear understanding of the career choices available and the risks and rewards associated with them. This is best received through real-life introductions and experiences.

Work with your child to develop an annual budgets, detailing how they plan to spend their money. Help them establish credit by getting a family credit card. Discuss the importance of not abusing this card, when they should pay it off, and when they should not.

Encourage them to start saving and investing immediately for their financial independence and retirement through IRAs and other tax-deferred retirement plans. Getting an early start is very important and can make their later years much more financially secure. Saving $50 per week, earning 8%, can produce a fund of over $1 million in 45 years!

When your child leaves the nest, make sure that they are prepared to deal with their personal finances. By following the above basic outline and incorporating your own real-world experiences, along with a current copy of this guidebook you can give your child a great head start on money management and increase their chances for financial success manyfold.

Dealing with the complexities of today’s world is a real financial challenge. Don’t leave your children and grand children unprepared. Helping them learn about personal finances can be fun — and very rewarding.
Let’s Review the Essentials

Here are the essential principles to managing your cash flow

- 1. Identify your income sources and spending habits
- 2. Learn cash management techniques to live within your means
- 3. Develop a cash flow plan with your partner
- 4. Build an appropriate cash reserve and a backup line of credit
- 5. Control impulse spending
- 6. Manage your cash flow
- 7. Avoid incurring debt by over spending.
- 8. Avoid high interest debt.
- 9. Introduce children and grandchildren to the essential principles to cash flow and smart financial management
- 10. The planning tips and ideas covered in Chapter 3

Congratulations! With completion of your cash flow management plan, you’ve taken a big financial step. You’ve created a framework for lifelong management of your cash flow, with the built-in ability to correct your course at any time. You’ve also redefined your relationship with money, eliminating a lot of the worry and uncertainty. Now you’re in a proactive mode, taking the initiative to move systematically toward the financial results you want. Your cash flow plan should change over time, as your circumstances and goals change. But whatever your needs, you will always have a money management system that will adapt as necessary.

Now let’s go on to see why your employment benefits are like a “hidden paycheck” and how you can maximize their value.
CHAPTER 4

Make the Most of Your Employment Benefits

Maximizing What Your Employer Offers

What do employment benefits have to do with managing your cash flow? Quite a lot, when you stop and think about it. Any amount your employer contributes toward health insurance, life insurance, or retirement programs is money you don’t have to spend.

The value of employment benefits is something that is commonly underestimated. Typically, employers spend the equivalent of 15% – 30% of employees’ salaries on benefit packages. When you consider the tax benefits, the value is even greater. For example, when you use your pretax dollars to fund retirement or insurance programs, it’s like getting nontaxable income. Not all employment benefits are tax free, so it’s important to know the difference.

In addition, there are value-added benefits, like employee credit union discounts and buying clubs, which can offer you attractive loans, saving investments and consumer products at a reduced cost.

Making sure that you understand and take full advantage of your employment benefits is an important way to reduce expenses, plan for your future, and be prepared for financial emergencies. Being informed about benefits offered will also help when you’re considering a job offer or career change. It’s not the salary alone that matters but the long-term value of your total compensation package. Employment benefits are a larger part of your personal cash flow than most people think.

“A reward cannot be valued if it is not understood.”

PHILLIP C. GRANT
Common Mistakes to Avoid In Managing Employment Benefits

☐ 1. Not understanding your benefits and their tax treatment
☐ 2. Not using benefits wisely
☐ 3. Not keeping your primary and secondary beneficiary selections current
☐ 4. Not managing your retirement and deferred compensation plans.
☐ 5. Having too much of your net worth tied up in your company’s stock.

Complete Your Employment Benefits Summary

Unless you are self-employed or employed by a small business, you probably have, or are entitled to, a variety of employment benefits. But do you know what they are and how much they are worth to you? Have you updated them recently? Have you verified that you are taking full advantage of them, to the fullest extent allowed by our tax laws?

You should review your benefits once a year. Your employer may provide an annual summary of your benefits, but it’s important that you fully understand it. Use the Employment Benefits Summary to help you to compile this information.

Instructions: Employment Benefits Summary

1. Review your company’s employment benefits handbook and benefits statement.
2. Complete a separate Employment Benefit Summary for each present and past job that involves ongoing benefits. Do this for every job you and your spouse held. Make sure you are in the best available benefit programs and are taking full advantage of the benefits available to you.
3. List and total the value of these benefits. For example, you might value $100,000 of group life insurance at $300 per year if you had to purchase it using your own money. Estimate as best you can the value of all benefits.
4. As you review each benefit, consider if you need to make any changes. For example, do you need to update the beneficiaries on a group life insurance policy? (Life insurance will be discussed in greater detail shortly.)

5. Consult your Personnel or Human Resources Department with your questions or concerns.


Verify Your Beneficiary Selections

If group life insurance or retirement plans are among your employment benefits, pay close attention to your beneficiary selection. Whom did you select? If you are married and have children, you probably selected your spouse as primary beneficiary and either left the secondary beneficiary blank or named your children or another family member.

Some alternatives to the above choices are worth considering, especially if the policy amount is substantial. If you name a minor as a beneficiary and you die prematurely, he or she will receive those funds at adulthood or the “age of majority,” which in most states is 18 or 21. Until the minor reaches that age, the guardian will manage the funds. When the minor becomes an adult, he or she will receive the proceeds as a lump sum. If this concerns you, a trust, as part of your estate plan, could be named as the primary or secondary beneficiary of your life insurance and/or retirement plans. Based on your wishes, the trust would control how the income and principal will be distributed to your children or other beneficiaries.

You may wish to name a charity as an alternate beneficiary on your life insurance policy or retirement plan(s), in case your first or secondary beneficiary choices do not survive you. You can also designate funds to provide for an endowment in your family name for the institution or charity of your choice.

If you are married with a combined estate valued at over $10,860,000, plus group insurance proceeds, consider using trusts or different forms of life insurance ownership to remove the insurance from your taxable estate. With proper estate planning, a couple can leave $10.86 million tax free in 2015, in addition to life insurance proceeds properly structured to heirs.
Review Your Health Insurance Options

If your employer provides you with optional medical plans, compare them in relationship to your medical expenditures. Take time to select health insurance coverage that meets your individual or family requirements. Your choices may include coverage under the following types of medical plans:

1. **Health Maintenance Organization (HMO):** Health insurance coverage under an HMO usually requires that you use only physicians and health care providers at the HMO facility, or who are part of the HMO network. Many HMOs require that you see a “primary” physician assigned to you before you can see a specialist. HMO coverage can save you money since, in general, you pay only a small coinsurance amount, such as $5 or $10, per doctor visit, with no deductibles. You do not need to mail in claim forms. HMOs can be advantageous for families with many medical bills.

2. **Preferred Provider Organization (PPO):** Health insurance coverage under a PPO contract usually provides greater freedom in choosing your health care providers. PPOs offer a large network of providers with whom the company has negotiated rates in advance. If you prefer, you can go outside the network and select your own providers. When you use the providers within the network, your insurance pays 80–90% of the fees, and you are responsible for only the remaining 10–20%. However, if you go outside the network, your insurance covers less, and you may need to pay 30–40%. Claims may be handled internally if you see doctors within the network; if you go outside the network, you usually need to pay the provider in advance and file a claim to get reimbursed for the amount covered by your insurance.

For either type of coverage, employers generally pay a portion of the monthly premium, and you pay the remainder. PPO premiums are generally higher than HMO premiums, because of the greater choice of health care providers you can access.

**Tips & Ideas**

- Some employers offer their employees a “flexible spending” or “cafeteria” plan, allowing you to designate an amount to be deducted before taxes from each paycheck. You can then use these withholdings to pay for any medical expenses not covered by your health insurance, including deductibles and co-payments. Estimate your annual deduction carefully, as amounts withheld are not returned if unused. This benefit can save you money by both reducing your taxable income and reimbursing you for health expenses you may have paid out of your own pocket.

- Many health maintenance organizations (HMOs) are beginning to include “alternative therapies” under their coverage. If you use chiropractic care, acupuncture, biofeedback, or other alternative medical treatments, check with your program administrator regarding your policy coverage.

- A federal law requires employers to provide health-care coverage to individuals who have lost coverage under group plans due to events beyond their control, such as termination of employment. Under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), an employer with more than 20 employees must offer group health continuation coverage (that you pay for, not your employer) for at least 18 months after qualification. Widows, divorced spouses, and children of the employee are also covered.
**Understand Your 401(k) and Other Tax-Deferred Compensation**

Some employers provide pensions, qualified profit-sharing plans, and other forms of tax-deferred compensation for their employees. To supplement these plans — or in some cases, in lieu of them — employers offer salary reduction plans such as a 401(k) plan. This reduces your taxable income. If you have the opportunity to put money into a 401(k) or equivalent program, do so. One of the best savings tools for retirement is a program which takes before-tax dollars from your salary and puts them into a tax-deferred compounding plan. You may pay income tax on future distributions, depending on tax laws and your tax bracket. Consider the results from the following two options.

The first involves an annual salary reduction of $5,000, earning an 8% return each year.

**Tax-Deferred Example**

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**Non-Tax-Deferred Example**

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<thead>
<tr>
<th>Salary Amount</th>
<th>After-Tax Rate of Return</th>
<th>Number of Years</th>
<th>Total After-Tax Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,600</td>
<td>5.76%</td>
<td>10</td>
<td>$46,919</td>
</tr>
<tr>
<td>$3,600</td>
<td>5.76%</td>
<td>20</td>
<td>$129,062</td>
</tr>
<tr>
<td>$3,600</td>
<td>5.76%</td>
<td>30</td>
<td>$272,869</td>
</tr>
</tbody>
</table>

Compare this to that same $5,000, taken after tax from your salary and invested in a similar fashion. In the 28% tax bracket, you would have only $3,600 of the $5,000 after tax to invest. If you invest this $3,600 earning an 8% return, your after-tax yield would be 5.76%, and over time you would have substantially less to fund your retirement.

**TIPS & IDEAS**

- As with all investment decisions, be careful with your investment selection and don't take more risk than you can afford. Also, if you take advantage of a tax-deferred pension plan, make sure your beneficiary selection is made carefully, as outlined in the previous discussion.

**NOTE:** This illustration uses a 28% tax bracket and an 8% rate of return. Your investment return and tax bracket may vary. Distribution from tax-deferred accounts are taxable when withdrawn.
Learn about Tax Treatment of Benefits

Congress has chipped away at benefits that employees can receive without having to report them as income. There haven’t been any new tax-free fringe benefits allowed since the mid-1980s. Some of the tax-free benefits still available include:

□ **Health and Dental Insurance**: Premiums for group medical and dental plans are excludable from an employee’s salary.

□ **Long-term Care Insurance**: Contributions to the cost of accident or health insurance, including qualified long-term care insurance paid by an employer, is excludable from the income of employees.

□ **Retirement Plans**: Employers’ contributions to qualified retirement plans are deferred from an employee’s taxable income until paid out to the employee.

□ **Life Insurance**: The premium for the first $50,000 of group term life insurance is income tax free. Premiums for additional amounts of group life insurance have favorable tax treatments.

□ **Disability Coverage**: The cost of employer-provided disability insurance is not included as taxable income to the employee. However, should the employee become disabled, the disability income proceeds are taxable.

□ **Discounts on Company Goods**: Employee purchases are tax-free as long as the goods are not sold below the company’s cost.

□ **No-Added-Cost Benefit**: The value of services provided by a company to employees at an insignificant cost to the company is not taxable income. For example: a vacant hotel room provided to hotel employees or reduced fare for an airline employee who takes an empty seat.

□ **Work-Related Fringe Benefits**: These are tax-free reimbursements of expenses that would otherwise be deductible employee business expenses. For example: parking fees on or near company premises. Caution: Free parking is not tax free for shareholders holding more than 2% of stock of an “S” corporation or partners in a partnership.

□ **Dependent Care Assistance**: Tax-free benefits are available for up to $5,000 of employer-paid childcare or disabled dependent care services. Married couples who file separate tax returns can claim up to $2,500 each. Be sure the payments are made under a written plan and they meet the rules for highly compensated employees.

For more information about fringe benefits see the IRS Publication 15-B, Employer’s Tax Guide to Fringe Benefits or visit https://www.irs.gov/publications/p15b/index.html

Let’s Review the Essentials

Here are the essential principles to managing your benefits

□ 1. Annually review Employment Benefits
□ 2. Learn about the tax treatment of your employment benefits
□ 3. Verify the beneficiary selections on your group life insurance and retirement plans
□ 4. Consider your health insurance options
□ 5. Annually review your retirement and tax-deferred compensation plans to make sure they are managed correctly
□ 6. The planning tips and ideas covered in Chapter 4
You’ve now addressed and put in place the following foundation to your total financial management system.

1. An ongoing system for the organization and management of all your financial documents and paperwork
2. An accurate picture of your net worth
3. A workable system for your of cash flow management
4. A well-thought-out strategy for maximizing your employment benefits

Now that you are positioned to begin planning for a future in which you have the financial resources to meet your life goals, let’s move on to Part II and begin mapping out your financial planning.
Part II

Financial Planning

financial PARTNER™
“Find the balance that works for you.”

Your financial PARTNER™
Financial planning is a major key to financial success. Short of winning the lottery or inheriting millions, few people attain financial security without forethought, a strategy, and implementation.

Financial planning does not have to be intimidating or difficult. In simple terms, a financial plan is whatever strategy you set up for yourself to meet your financial needs and goals. Successful financial plans are personal in nature. They’re based on the essential principles of smart financial management and your own goals, values, and lifestyle choices; they even reflect your personality. Do you like to take risks, or are you more conservative? Would you rather own equities, real estate, or fine art? Do you like to consult with a lot of people before making a decision, or do you prefer to do your own investigation and come to your own conclusions?

Whatever your personality or goals, it’s important that you understand the financial planning steps. They will help you formulate a winning strategy to meet your financial goals. Your financial PARTNER will help you understand what is involved in financial planning by giving you a systematic, problem-solving approach that can be used to identify your goals along with the steps needed to reach them. You will only get as much out of financial planning as you’re willing to put into it. The field of financial planning is broad, and its different areas overlap. Bankers, tax accountants, insurance agents, stockbrokers, and others can all act as financial advisors. Each of them emphasizes different aspects of your financial life. This is another reason why financial plans can take on many different forms.
After you’ve set your goals (more about that later), your financial PARTNER identifies six major areas of personal finance that should be included in your financial planning. This section will show you how to analyze, plan, and integrate each of these areas:

- Financial Independence & Retirement (FIR™)
- Major Expenditures
- Investments
- Taxes
- Insurance
- Estate Planning

Your financial PARTNER will provide you with information and planning tips to help you better understand each area of financial planning. Also included in the section are valuable tools to help you identify and develop both personal and financial goals. The objective here is to familiarize yourself with the essential principles to smart personal financial management so you can begin creating or solidifying your personal financial plan.

Why Develop a Financial Plan?

The economics of present-day living are more demanding than ever. The uncertainties of the job market, the rising costs of college education and healthcare, questions about the future of Social Security and other government programs, and the need to support yourself over a longer life span are now real concerns. Developing a financial plan will address your current financial situation while giving you the best sense of security for the future.

Addressing long-term needs can seem overwhelming. Dealing every day with an avalanche of financial information isn’t easy. However, understanding the steps for financial planning will help you to sort through and evaluate all types of financial data. It will also help you:

- Save time and money when dealing with financial matters and working with financial advisors
- Recognize bad advice and avoid financial pitfalls
- Determine what has to be achieved in order to meet and maintain your financial goals

You don’t need to become an expert in the field of finance to create and carry out a financial plan. You do need to develop the assertiveness to ask questions and the willingness to listen until you understand the answers. Finally, you must make the commitment to learn, understand, and use the essential principles to smart personal financial management.

Comprehensive Financial Planning, This is the process of developing a complete strategy and plan to have the best probability to reach and maintain a defined set of short, intermediate and long-term financial and life goals. The process starts by defining goals and needs; followed by gathering, organizing, and analyzing relevant financial data; identifying strategies, selecting and implementing the appropriate strategies, and tracking and monitoring the process.

The areas addressed by comprehensive financial planning include organizing appropriate personal and financial data; which includes hard copy and digital paperwork and records, inventorining what you own and
owe, understanding how you make and spend your money, dealing with employment benefits; establishing personal and financial goals, addressing financial independence and retirement planning, major expenditures -- buying a car and house, funding education, …; investments, taxes, insurance, and estate planning.

To develop, implement, and/or manage a comprehensive financial plan usually requires input and assistance from various financial service and nonprofit professionals that many include attorneys, Accredited Estate Planners®, Certified Financial Planners®, Certified Public Accountants, Chartered Financial Consultants®, Chartered Trust Underwriters®, eldercare specialists, financial planners and advisors, insurance agents, money managers and investment advisors, planned giving officers, private fiduciaries, realtors, and other financial service specialists.

Procrastination

Putting off a decision or delaying an action is something everybody does. Sometimes it’s wise to wait, to make sure you have all the information you need or until the timing is right for a particular transaction. But procrastination can cause serious problems, including missed opportunities, increased stress, and a cynical attitude about accomplishing anything. Procrastination is the most common downfall in financial planning.

Here are some basic reasons for procrastination:

- Fear of failure — “I know I won’t do it right, so why do it at all?”
- Perfectionism — “What if I make a mistake?”
- The unknown — “I’m not sure what’s involved, so where do I start?”

You can break the procrastination habit. Here are some suggestions for getting things done instead of putting them off:

- Break big tasks into manageable parts
- Set priorities
- Spend 20 minutes every day on your top-priority task
- Plan rewards for yourself as you complete each task
- Most importantly, get organized.

Why Do So Many People Avoid Financial Planning?

If the need for financial planning is obvious, why do so few people do it? Here are a few reasons people give:

- Unorganized finances
- Lack of financial knowledge
- Too much information and no system to process it
- Not enough time
- Procrastination
- Lack of goals as a motivating force

Bob Jones and his wife, Mary, died in a car accident with unsigned wills and trusts sitting on top of their desk. These documents were designed to save their heirs more than $300,000 in unnecessary taxes and expenses. Since they were unsigned, the wills and trusts had no legal value. The children had to deal with their grief as well as spend hours with advisors handling this significant loss in family wealth. It took many months and thousands of dollars to settle the estate. If Bob and Mary had not procrastinated, the scenario following their death would have been avoided.
Understand the financialPARTNER Planning System

Six Easy Steps to a Secure Financial Future

Comprehensive financial planning involves a lot of factors, which can seem complex and confusing. If you don’t know the essential principles of smart financial management and how to use them, you may not even try. Armed with the correct knowledge, financial planning can be very rewarding, as you see yourself actually progressing toward your financial goals.

First, you need to do some serious (and playful) thinking about your goals, both personal and financial. In Chapter 5, you’ll have the opportunity to formulate and actually establish your goals. These will serve as the basis for all of your planning, giving your actions meaning and direction.

Then, to simplify and clarify financial planning, your financialPARTNER outlines the following six-step system for analyzing and planning any area of your financial life. This six-step system will guide you in a logical progression toward establishing, understanding, and meeting your financial goals for:

- Financial Independence & Retirement (FIR™)
- Major Expenditures
- Investments
- Taxes
- Insurance
- Estate Planning

Six Steps to Successful Financial Planning

Step 1. Define Your Goals: State your personal and financial goals as concisely as possible.

Step 2. Gather & Organize Your Data: Make sure your financial information is organized so that your current financial position is clear. Hopefully you’ve already done this by working through Part I of this book. (Refer to your Net Worth Statement and Cash Flow Planners.) If not, do so as you address each of the six areas of personal finance in this section.

Step 3. Analyze Your Situation: Look at your current financial position. Are you meeting your goals, or are you falling short?

Step 4. Develop Your Strategies: Identify plans that will help you achieve your goals in the most efficient manner.

Step 5. Implement Your Plan: This is your action step. Take definitive measures to achieve your goals.

Step 6. Track & Monitor Your Progress: Depending on which of the six areas you are reviewing, check your progress on a monthly, quarterly, semiannual, or annual basis.

Learning, understanding, and using the essential principles of smart financial management is very important as it gives you the tools to address everyday financial decisions in a more informed manner.
financial PARTNER Planning Steps

This form enables you to identify and describe the specific matters that must be addressed within each step of the financial planning process.

Instructions: Financial Planning Steps

1. Make copies of this form so you will have extras to use as you outline and address each area of your financial planning.
2. As you complete this form, note any tasks and action items on your Things to Do list.
3. Keep your Financial Planning Steps forms with your worksheets for each area of your financial planning. These should be stored in your forms binder or Financial Organizer.

The following discussions will guide you through each of the financial planning areas using the financial PARTNER Financial Planning Steps process while sharing with you the essential principles of smart financial management.
“Start by doing what’s necessary; then do what’s possible; and suddenly you are doing the impossible.

ST. FRANCIS OF ASSISI”
Let Yourself Be Guided by Goals

In today’s fast-paced world, it’s easy to go through life without long-term goals to guide us. We live in a society that stresses the value of short-term results. We tend to think more about the upcoming weekend than about our future years.

Comprehensive financial planning guides you through short-term, intermediate, and long-term time frames. As you saw in Part I of this guide, you need to take stock of your cash flow and learn to manage it in order to live comfortably both in the present and future. Having enough cash to satisfy your short-term needs is important, but it only addresses part of the equation.

You need to consider your objectives for your entire life. How would you like your life to be in the next 3, 5, 10, 20, 30, and even 50 years? Where will you live? What activities have value to you? What do you want to accomplish? What would you like to change or make better? What would you like to contribute to this world?

Your financial PARTNER believes that goal setting is a worthy and useful task. Goals can help you hone your expectations and give you a target for the future. Without long-range goals, you might wander through life and discover only too late that you didn’t get a chance to accomplish what you really wanted.

Goal setting is actually not difficult, can be fun and very enlightening, even if you have not done it before. All you need is some private time to let your thoughts and imagination take control. Reflect on what values are important to you. Decide which targets you want to aim for. This chapter will help you develop a set of personal and financial goals to motivate, inspire, and help guide you on.

“*If you don’t know where you are going, you might wind up someplace else.*”

YOGI BERRA
Common Mistakes to Avoid In Goal Setting

- 1. Failing to set personal and financial goals
- 2. Being unhappy and not living your life to its fullest

Define What Really Matters

Do you yearn to cook in a customized kitchen? Live on a championship golf course? Wouldn’t you be sorry if you never took that dream trip? Do you need a home office? How will your children or grandchildren obtain a college education? Assist your favorite nonprofit change the world. People’s needs and desires provide the fuel for financial planning.

It’s important to put your goals in writing. If you don’t establish your own goals, there are other forces that will: peer pressure, intense marketing, or bad habits.

Now is the time to begin looking at your individual lifestyle, financial, and charitable goals, as well as those of your family members and loved ones. Use the following forms to document your goals. Give copies of the Lifestyle Goals planner to family members to fill out, unless you are using the digital forms. Use pencil, as you may redefine your own goals once you see your family’s and when you learn more about the financial planning process.

Give yourself time to consider alternatives. What would make your life easier and more enjoyable? Don’t worry if you’re not able to complete the goals planner the first time you try. Remember, financial planning is a lifelong process and your different goals will change as you accomplish some and time passes. If you are committed to improving your financial future, you will regularly redefine your goals.
### Lifestyle Goals

<table>
<thead>
<tr>
<th>Financial Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paperwork</strong></td>
</tr>
<tr>
<td>Follow the Financial Partner system to keep control of our paperwork</td>
</tr>
<tr>
<td><strong>Assets &amp; Liabilities</strong></td>
</tr>
<tr>
<td>Increase net worth and reduce debt</td>
</tr>
<tr>
<td><strong>Cash Flow</strong></td>
</tr>
<tr>
<td>Work harder and smarter to generate more income to help fund our other goals</td>
</tr>
<tr>
<td><strong>Employment / Career</strong></td>
</tr>
<tr>
<td>Read one book a month to keep improving my proficiency skills / Advance to a senior management</td>
</tr>
<tr>
<td><strong>Financial Independence / Retirement</strong></td>
</tr>
<tr>
<td>Reach a level of financial independence before I have to retire</td>
</tr>
<tr>
<td><strong>Major Expenditures</strong></td>
</tr>
<tr>
<td>— College Education</td>
</tr>
<tr>
<td>Provide our children with a good college education</td>
</tr>
<tr>
<td>— Home</td>
</tr>
<tr>
<td>Replace the roof in 3 years – $8,000</td>
</tr>
<tr>
<td>— Auto</td>
</tr>
<tr>
<td>Replace the Bronco in 2 years</td>
</tr>
<tr>
<td>— Other</td>
</tr>
<tr>
<td>Begin planning for a special vacation for our 20th anniversary</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
</tr>
<tr>
<td>Build our investment net worth to provide for comfortable FIR and to fund major expenditures</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
</tr>
<tr>
<td>Not pay more than our fair share</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
</tr>
<tr>
<td>Protect our assets that we cannot afford to lose</td>
</tr>
<tr>
<td><strong>Estate Plans</strong></td>
</tr>
<tr>
<td>Take care of and protect the family if I get sick or prematurely pass away</td>
</tr>
<tr>
<td><strong>Other</strong></td>
</tr>
</tbody>
</table>

---

### Instructions: Lifestyle Goals

1. **Identify and describe your lifestyle goals.** Notice that the Lifestyle Goals planner is composed of two forms. The first asks you to focus on your Personal Goals. These include your ideas about family life, self-improvement, community activities, health and exercise, hobbies and special interests, recreation and travel, and other personal goals you may have. You may wonder how thinking about such personal goals can matter to your financial planning, but in fact, your personal goals can make a great deal of difference. For example, if you have a strong personal goal to travel to many countries in the world, you will need to save money to help you accomplish your goal. Striving to achieve your personal goals can have a significant impact on your financial resources, but that doesn't mean you shouldn't pursue them.

   Your first task is simply to list your goals on this form. Then, in the rest of Part II, your financial PARTNER will help you development strategies to achieve them.

   The second form focuses on your specific Financial Goals. It covers such areas as your net worth (assets and liabilities), cash flow, financial independence/retirement, and major expenditures, such as college for your children.

   You may not generally think of the financial aspects of your life as being driven by your goals; like many of us, you may more often find yourself reacting to financial situations rather than planning for them.

   This is precisely why you need to think about and formulate your financial goals today. By taking a few minutes with these forms, you can become proactive rather than reactive.
2. Fill out the two forms as completely as you can. Don’t worry if you can’t come up with a goal for every section. Just write whatever ideas you are comfortable with. You can always come back and update the form later.

3. Store the forms in your forms binder or your Financial Organizer, but don’t “bury” them. Many experts on goal setting suggest that you review your goals at least once each year, because just as your circumstances and even your values will likely change over time, so will your goals.

It’s Your Dream

Now that you have spent some time thinking about your goals, you may actually feel better about where you are in your life and where you want to go. Even if your goals are not yet as clearly defined as you would like, you have at least escaped the procrastination pitfall. As a result, you have probably started to identify a few items that you would like to accomplish.

In Part I of the financial PARTNER, you have seen how big tasks — like organizing your paperwork, determining your net worth, managing your cash flow — can be broken down into a series of smaller, more manageable ones. With some initial goals in place, you are now prepared to approach the six easy steps of financial planning in the same methodical way.

As you go through each of the financial planning areas — financial independence and retirement planning, major expenditures, investment planning, tax planning, insurance, and estate planning — you will be asked, in Step 1 of the six-step financial PARTNER Planning System, to review the goals you recorded on the Lifestyle Goals forms. Don’t be reluctant to revise those goals whenever you want. They reflect your desires, your dreams. Remember the saying: “A goal is just a dream with a deadline.”

Let’s Review the Essentials

Here are the essential principles for defining your goals

- 1. Define what’s really important to you, personally, financially, and charitably
- 2. Regularly review and update what matters most to you personally and financially

The next six chapters cover the areas that have the greatest impact on your financial life. If you keep your goals in focus, you will greatly improve your planning in each of these areas.

“What do I have to contribute to make this a better world?”

KEN RUFF
CHAPTER 6

Financial Independence/Retirement Planning

“Procrastination is one of the most common and deadliest of diseases and its toll on success and happiness is heavy.”

WAYNE DYER

Approach Your FIR™

Everyone would like to reach a stage of financial independence before retirement. Financial independence means you have the ability to do what you want, when you want, without having to concern yourself with “outside” financing. Financial independence is an attainable goal, especially for those who start saving and investing early in their lives. What’s most important is to begin!

You may have to support yourself for 20–30 years or more beyond the normal age of retirement. This sobering thought highlights the reality that a comfortable and satisfying retirement does not happen by accident. This is an issue which must be specifically planned for and weighed in the context of all other spending decisions.

Why do people resist taking care of their financial future? Most people have not made this a priority because they don’t understand what needs to be done or how to do it. Few of us are ever exposed to retirement planning at home or at school.

Many individuals in their 20s and 30s are more concerned with beginning families and careers than with planning for retirement or their financial independence. Some pretend that old age will never happen. In the middle years, the reality of retirement begins to come into focus. We feel caught in a squeeze between getting children through school and caring for aging parents. It takes deliberate action to prepare for Financial Independence and Retirement (FIR).
Common Mistakes to Avoid in Financial Independence / Retirement Planning

- 1. Failing to plan
- 2. Not understanding compounding and time value of money
- 3. Not running your numbers to learn what income you'll need at your FIR and how much capital you'll need to accumulate
- 4. Not starting a savings and investment plan early
- 5. Not investing prudently
- 6. Counting on the equity of your home to finance your future
- 7. Assuming an inheritance will get you through your future
- 8. Not considering inflation when estimating future living needs
- 9. Not being prepared for medical and other emergencies
- 10. Failure to address longer life expectancy
- 11. Procrastination

Compounding Returns: The earning on earnings from invested principal when it is left to accumulate. This can be interest, dividends, or growth through appreciation.

Time Value of Money: Asserts money is worth more today than the same amount of money received in the future. This is due to the potential earning power of money. $100 invested today at 8% will grow to $108 in one year. At 8%, $100 received in one year is only worth $92.59 (divide $100 by 1.08). Due to money's potential to increase in value over time, you and your advisors can use the time value of money to calculate how much you need to invest and at what rate-of-return to reach certain future goals.

Secrets of Compounding and Time Value of Money

Albert Einstein is quoted for saying, “Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.”

Compounding allows your money to grow faster and fast as earning grow on earnings from invested principal when it is left to accumulate. Compounding is truly one of the most powerful forces in the universe. As it relates to money and investing it can be the compounding of interest, dividends, or growth through appreciation.

Here's a quick illustration for you; which would you prefer to receive, a $1 million today or one penny today, and have that penny doubled every day for the next 30 days?

The following results many astound you.

| Day 1: $1  | Day 2: $2  |
| Day 3: $4  | Day 4: $8  |
| Day 5: $16 | Day 6: $32 |
| Day 7: $64 | Day 8: $128 |
| Day 9: $256| Day 10: $512|
| Day 11: $1024| Day 12: $2048|
| Day 13: $2048| Day 14: $4096|
| Day 15: $4096| Day 16: $8192|
| Day 17: $8192| Day 18: $16384|
| Day 19: $16384| Day 20: $32768|
| Day 21: $32768| Day 22: $65536|
| Day 23: $65536| Day 24: $131072|
| Day 25: $131072| Day 26: $262144|
| Day 27: $262144| Day 28: $524288|
| Day 29: $524288| Day 30: $1048576|
| Day 31: $1048576| Day 32: $2097152|
| Day 33: $2097152| Day 34: $4194304|
| Day 35: $4194304| Day 36: $8388608|
| Day 37: $8388608| Day 38: $16777216|
| Day 39: $16777216| Day 40: $33554432|
| Day 41: $33554432| Day 42: $67108864|
| Day 43: $67108864| Day 44: $134217728|
| Day 45: $134217728| Day 46: $268435456|
People who don’t understand the power of compounding will select the $1 million, however when they see what happens they are truly amazed. This magic can also happen as it relates to relationships, customers, and networking, but is a topic for a future discussion.

When you allow compounding to take place over longer periods of time the growth can be unbelievable, it is truly one of the greatest forces in the universe.

When compounding is working for you it is your best friend. However, when it is working against you compound interest can be your greatest nightmare.

When you borrow money, you pay interest to the lender until you repay your loan. With certain types of loans if you don’t pay more than the monthly interest charge, your bill will continue to increase each month until the debt becomes almost insurmountable. This usually doesn’t happen on standard home and auto loans, but can happen if you only make the minimum payments on certain credit cards or mortgages with negative amortizations. Here payments may not cover more than the interest and finance charges, if that. Thus just paying minimum payments makes it easy to stretch out the loan almost indefinitely and in some cases impossible to repay.

How to defeat compound interest from working against you; don’t get into these types of loans and if your do pay them off ASAP.

Regular Saving and Investing Is the Key

The following table shows the potential growth of $10 deposited each month for different durations and returns. See how even a small amount can grow and compound over time.

<table>
<thead>
<tr>
<th>Years</th>
<th>4%</th>
<th>6%</th>
<th>8%</th>
<th>10%</th>
<th>12%</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>$1,477</td>
<td>$1,647</td>
<td>$1,842</td>
<td>$2,066</td>
<td>$2,323</td>
</tr>
<tr>
<td>20</td>
<td>$3,680</td>
<td>$4,644</td>
<td>$5,929</td>
<td>$7,657</td>
<td>$9,991</td>
</tr>
<tr>
<td>30</td>
<td>$6,964</td>
<td>$10,095</td>
<td>$15,003</td>
<td>$22,793</td>
<td>$35,299</td>
</tr>
<tr>
<td>40</td>
<td>$11,859</td>
<td>$20,014</td>
<td>$35,143</td>
<td>$63,768</td>
<td>$118,824</td>
</tr>
</tbody>
</table>

You can use this table to find multipliers of $10. For example: You intend to invest $100 per month for 20 years at a 10% return. How much will you have? Take the result of investing $10 per month for 20 years — $7,657 — and multiply it by 10. At the end of the period, you will have $76,570.

It’s Never Too Soon

It is never too soon (or too late) to begin planning for your financial independence. For example, saving and investing

- $50 a week and investing it at 8% provides you a $1 million in 45 years.
- $160 a week and investing at 8% provides you a $1 million, in 30 years.
- $400 a week and investing it at 8% provides you a $1 million in 20 years.
- $1,300 a week and investing at 8% also provides you $1 million; however it is in 10 years.
When to Start and the Cost of Waiting

It is never too soon to begin planning for your financial independence. If you were to begin saving and investing for your financial independence (or your child’s or grandchild’s) with the earnings from your first job at age 17 look what could happen. If you earned over $5,500 per year going forward and opened a Roth IRA, (A retirement plan that allows a qualified worker to make nondeductible contributions from employment earnings into various investments that grow tax deferred until you withdraw them. After age 59½, the account holder may withdraw any or all proceeds without incurring federal income tax, if certain conditions are met.)

If over the next 13 years, until age 30, you were to fund the Roth IRA with $5,500. If you were not able to fund the full $5,500 yourself, because the earning were required to be used on other expenditures, the difference was made up with cash gifts from family and close friends and

• The ROTH IRA is invested in an S & P index fund
• This fund generates a Compounded Annual Growth Rate of 8% (These funds are not guaranteed and could lose money, but for this example it is lower than the last 50 year historical Compounded Annual Growth Rate of the S & P 500 (9.99%)
• Then stops funding the ROTH IRA and doesn’t make another contribution
• At age 65 the child could have over $2 million dollars!
• If the child waits one year before starting this program, at age 65 they will be $151,000 short, even though they saved the same amount of money.
• If the child were to wait until age 30 before starting this program, they would be over $1.289 million short!!! Even though they saved the same amount of money!!! And this money under current rules can be withdrawn tax-free!

Here you can see the cost of waiting 13 years is over $1,289,000.

If you were to continue funding the Roth IRA each year after age 30 you could have over $3.150 million. But if you waited to age 30 to begin this same program at age 65 you would have over $1 million, and be over $2 million short

Finding the Funds - It’s a Matter of Choice

With all the challenges of everyday living and all the marketing to spend our hard earned dollars on daily consumables and great new products, many people never get started saving and investing for their futures. Just think if you were to forgo a daily coffee or soda or other daily habit, and were able to save and invest just $3.00 per day. Look what it could grow into.

<table>
<thead>
<tr>
<th>YEARS</th>
<th>6.00%</th>
<th>8.00%</th>
<th>10.00%</th>
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<tbody>
<tr>
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<td>$16,772</td>
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<tr>
<td>45</td>
<td>$253,245</td>
<td>$487,053</td>
<td>$974,130</td>
</tr>
</tbody>
</table>

Think what this extra money could mean for your financial future.
Financial Independence/Retirement (FIR™)

1. **Define Your Goals**: Lifestyle and financial considerations overlap when it comes to retirement. Here are some basic questions to ask yourself:

   - **When do you plan to become financially independent or retire?** Is early retirement your goal, or do you plan on working well into your 70s? Someone who retires at 60 can expect to live 25 years or more. Can you afford to stop working?

   - **How much money will be needed each year to support your FIR and where will it come from?** In order to maintain your current standard of living, you may need 60–90% of your annual preretirement income. Typically, Social Security and pensions replace only 20–60% of preretirement income. The balance must come from your personal savings, investments, earned income, or inheritance.

   - **How will you spend your retirement years?** Will you tour the country in a camper, or will you spend time at home with the grandchildren? Will you pursue new hobbies or creative activities? Answering questions like these is a vital part of the planning process.

   - **Where will you live during retirement?** During working years, it’s usually best to live in an area with a strong job market, escalating real estate values, and a reasonable cost of living. After retirement, your nest egg will go further if you relocate to an area with a lower cost of living. Although relocation might save money, never make a decision of this magnitude before spending significant time in the new area.

2. **How long will your retirement last?** Improved health care and healthy lifestyles are making it possible to live longer.

3. **Do you want to leave money to your children, friends, or charities?** This represents a real financial challenge unless you develop and implement your retirement plan now.

   - A number of financial planners suggest using as a guideline the “4-percent rule” for asset withdrawal rates beginning at the time of retirement. The 4-percent rule was developed by William Bengen, a Certified Financial Planner, and published his research in an article titled “Determining Withdrawal Rates Using Historical Data” in the October 1994 Journal of Financial Planning. Bengen’s research showed how a retiree with a balanced equity portfolio could safely withdraw 4 percent from their portfolio adjusted for inflation, over a 30 year period. However, with people living longer today, many may require larger savings or a smaller withdrawal rate.

   - Advisors also point out that everyone is unique and have different circumstances. Some people will receive a larger inheritance, others have different family and health care circumstances, some people will retire at an early age, while other will work and earn money well into their retirement years, some will spend more money while they are active in their early retirement years while others will not have long-term care coverages and spend more in their later years,...

   - Financial independence and retirement planning can make a big difference in your future, so do some advanced thinking and planning and then seek out qualified advisors to assist through your various options and choices. Don’t hesitate is getting a second opinion if your situation is complex or you are not comfortable with the options you see in front of you.
2. **Gather & Organize Your Data**: Review and update your current financial position. This involves inventorying your investment assets, understanding your cash flow and needs, and determining how much money you are putting aside for FIR each year.

3. **Analyze Your Situation**: This step involves a careful consideration of several factors. You may require assistance from a professional advisor as you look at these issues:
   - Number of years until FIR
   - Projected annual living expenses & long-term care needs
   - Expected length of FIR
   - Current investment holdings
   - Return on your investment assets prior to FIR
   - Return on your investments during FIR
   - Future savings
   - Possible major expenditures and windfalls
   - Inflation

As you can see, this analysis involves significant data and complex financial calculations. These can best be accomplished through the use of retirement planning software, or online services or professional assistance. However, you can begin analyzing your financial independence/retirement cash flow by using the **FIR Savings Projection Worksheet** that follows. Remember to use a pencil so you can change numbers and play “What if.”

4. **Develop Your Strategies**: If your FIR calculation shows you will need more money, consider some strategies to achieve your desired result. Can you set aside more money each month for retirement? Is there a way to receive higher returns on investments? Can you delay FIR a few years? Can you lower your FIR income goals? Explore all the variables that can affect your FIR planning.

5. **Implement Your Plan**: In this phase of the process, you must decide on a course of action and implement it. Will you increase your savings? Put more money in your 401(k)? Seek higher returns by repositioning your assets? Now is the time to decide and take action.

6. **Track & Monitor Your Progress**: Do this on an annual basis. Analyze your situation, reevaluate your strategies, and make adjustments as needed. Make a note on your **Personal Financial Calendar** as a reminder to do this.
You can save for your retirement using any combination of the following account types to hold your various investments, such as money market funds, CDs, stocks, bonds, and mutual funds:

- **TAXABLE ACCOUNTS**
  
  Taxable accounts are the regular savings, CD, stock, bond, and mutual fund accounts you might have in your bank, savings and loan, or brokerage firm. Any earnings you receive each year from interest and dividends are taxed as income in the year you receive them. Investments in these accounts are also subject to capital gains tax each year if you sell them at a gain (short-term or long-term.)

  There are two major exceptions:
  
  - Interest received from most bonds issued by state or local governments is not subject to federal taxation. Such investments are known as tax-exempt.
  
  - If you sell an investment for less than you paid for it, it is a capital loss. You can use capital losses to offset any capital gains, dollar for dollar, when you calculate your tax liability, up to $3,000 of ordinary income each year. Unused losses can be carried forward indefinitely.

- **TAX-DEFERRED ACCOUNTS**
  
  Tax-deferred accounts include traditional IRAs and 401(k) accounts. These accounts have a significant advantage over taxable accounts: The money invested in a tax-deferred account — and the interest, dividends, and gains generated — are not taxed until you withdraw your funds during retirement, as long as you adhere to the regulations. (In other words, you do not pay taxes on interest, dividends, or capital gains inside a tax-deferred account. However, you cannot use any capital losses you incur to offset gains.) This “deferring” of taxes means that your IRA or 401(k) grows faster than a taxable account, helping you build a larger nest egg for retirement. When you begin making withdrawals in retirement, your withdrawals are taxed as ordinary income. If you set up a tax-deferred IRA and you meet certain income requirements, the amount you contribute to your IRA, up to your applicable limit, may be deductible on your income taxes for the tax year of the contribution.

- **TAX-FREE ACCOUNTS**
  
  A Roth IRA is neither a tax-deferred account nor a taxable account. It is a tax-free account. Specifically, in a Roth IRA, your contributions must come from earned income that has already been taxed, but your earnings and gains are not taxed when you withdraw them, as long as you have had the account more than five years and are at least 59½. In addition, it's possible to withdraw the contributions and earnings without paying taxes on them if you meet the requirements for a qualifying special-purpose distribution, such as the death of the taxpayer or for the purchase of a first home for the taxpayer, taxpayer’s spouse, or the child, grandchild, or lineal ancestors and descendents of the taxpayer. Another qualifying distribution is payment of qualified higher-education expenses for the taxpayer, the taxpayer's spouse, or any child or grandchild of the taxpayer or taxpayer's spouse.

  **Note:** You can contribute any amount each year to your taxable account. However, the amount you can contribute each year to a tax-deferred IRA or tax-free Roth IRA may be limited. In 2017 is limited to $5,500 ($6,500 for age 50 and above) each. The limit is based on your (and or your spouse’s) participation in a company-sponsored retirement plan, your marital status, your income, and your total retirement contributions. Consult with your tax preparer or accountant to find out which limits apply to your personal situation.
Financial Independence/Retirement (FIR) Savings Projection

The FIR Savings Projection worksheet gives you a quick view of how much you will need to save in order to reach your retirement cash flow goals. It also helps you determine your total FIR needs, adjusted for inflation, then helps you determine how much you need to save monthly to fund your FIR years.

Instead of using this FIR saving projections you many want to use some of the many free retirement calculators available online to assist you with these very complex calculations and provide you with greater detail. However be cautious, these calculators are not built with standard formulas and assumptions and thus can produce quite different results. You my want to use several and compare results. Here are some links to help you find the right one for you:


In addition, we strongly suggest that you consider consulting a professional financial advisor to help develop or confirm more detailed FIR plans.

Whatever you do, it is very important that you start some type of FIR planning; be sure to run your numbers to learn what income you'll need at your FIR and how much capital you'll need to accumulate. The planning you do today will have a positive long-range effect on your future lifestyle.
Instructions: FIR Savings Projection Worksheet & Tables

1. Calculate how many years to FIR and years of FIR.
   a. Enter your desired FIR age. (This worksheet does not take into account for a married couple the variance in the number of retirement years each spouse might need to fund, such as happens when one spouse retires later than the other. Therefore, if you are married, use the age, years of FIR, and life expectancy of whichever spouse will retire first. If the other spouse continues working, his or her income will be a nice supplement to the income this worksheet helps you predict.)
   b. Enter your current age. (If you used your spouse’s desired FIR age above, enter his or her age here.)
   c. Subtract 1b from 1a. This shows how many years remain to save for FIR.
   d. Estimate how many years you will spend in FIR. This will depend on your life expectancy. financialPARTNER recommends using age 90 or 95. Your own family circumstances and personal health history are important factors to consider in evaluating your life expectancy.

2. Circle the word that best describes what type of investor you consider yourself to be.
   • A conservative investor would typically prefer little risk and accept a 4–7% return on investments. (We will use 7% for this type of investor.)
   • A moderate investor would typically accept some risk and an 8–10% return on investments. (We will use 9% for this type of investor.)
   • An aggressive investor would typically accept a high degree of risk and seek a greater than 10% return on investments. (We will use 11% for this type of investor.)

(Note: Investment risk is further discussed in Chapter 8.)

3. Calculate how much annual income you need for your FIR.
   a. First, indicate your current gross annual income. (If you are married or have a partner, combine your income and your spouse’s.)
   b. Multiply the figure in Step 3a by 65%. According to research, you will need roughly 80% of your current annual income to live on in FIR, which, after taxes, would equal approximately 65%. This reduction in income needs reflects the fact that people in retirement have fewer expenses because they no longer work. You can use a higher or lower percentage if you prefer.
   c. This is your annual FIR income projection.

Note: An alternate way to calculate your annual income needs during FIR is as follows:

Indicate your current gross household income $__________
Subtract your Social Security tax and income taxes paid $__________
Subtract the amount you put away in savings each year $__________
The remainder is your after-tax living expenses $__________

If you prefer, use this amount in Step 3c.

Note 2: If you assume a safe withdrawal rate of 4% as many planner suggest, then you will require $500,000 to produce an inflation-adjusted $20,000 per year, or $1 million to generate $40,000 per year through your retirement years.
4. Calculate the amount of funds you will need that are not provided by Social Security, pensions, or other income. In other words, what is your shortfall?
   a. Insert your FIR annual income projection from Step 3c.
   b. Subtract your estimated Social Security benefits or reference Table A on the following page.
   c. Subtract your estimated pension benefits if you will receive a pension. If you are unsure, ask your employer for an estimate.
   d. Subtract any other annual income you expect. For example, if you expect to work part-time during retirement, have an annuity or have trust income, subtract an estimate of that amount here.
   e. The result of the above calculations give you an amount that equals the annual income you will need from your own investments.
   f. Multiply the amount from Step 4e by the factor in Table B (following page) that pertains to you. Look at Table B and select from the left column the closest number of years you will live in retirement. Then read across that row to the column that describes the type of investor you are. The number at the intersection of the column and row is your Table B factor. These factors are essentially the amount in dollars you will need to provide $1.00 of income for the entire number of years of retirement at each investment rate. (This includes accounting for inflation at 3.5% per year.)
   g. This is the estimated total retirement funds that you need to save to support you through all your years of FIR.

5. Calculate the amount of additional funds you need to save to achieve your objective in Step 4g.
   a. Insert the amount from Step 4g.
   b. Subtract the total of your current retirement plan investments. You can find this amount on your Net Worth Statement under “Investment Assets & Liabilities – Retirement Plans” and on Schedule 5. (Note: If you intend to use all your investment assets for retirement, not just those you have invested in specific retirement accounts, use the amount shown in the “Subtotal” at the bottom of the section “Investment Assets & Liabilities” on your Net Worth Statement.)
   c. Subtract the amount of any other funds you may receive. This might be from the sale of a home, property, business, or other asset, or from an inheritance. Be careful in estimating this number. You can be caught in a pinch if you are counting on these extra assets and they don't materialize.
   d. This amount equals the total of additional investments you need to acquire in order to fund your FIR years.
   e. Multiply this amount by the Table C factor. Look at Table C (following page) and select from the left column the closest number of years before you reach FIR. Then read across that row to the column that fits your investment style. This is your Table C factor. This factor is a multiplier that determines the amount required for a series of payments (your monthly investments) to create a total amount at a future point in time.
   f. This is the monthly amount you need to save to reach your FIR objectives.
CHAPTER 6: Financial Independence/Retirement Planning

Table A — Estimated Social Security Benefits

Social Security automatically sends out statements annually to all workers age 25 and older, and provides an estimate of benefits along with a complete earnings history. Individuals may also file Form SSA-7004, Request for Earnings and Benefit Estimate Statement, by mail or request the statement online from the SSA’s website. You can also estimate your Social Security benefits online at www.ssa.gov/planners/calculators.htm. There you will find three calculators that can estimate your potential benefit amounts using different retirement dates and different levels of potential future earnings. These calculators show retirement benefits as well as disability and survivor benefit amounts.

- Maximum retirement benefits beginning at age 66 are $32,244.

For planning purposes, the estimated Average Benefits in 2017 are:

- Retired worker: $16,320
- Retired worker and spouse age 62 and over: $27,120
- Widow(er) of worker: $15,600
- Widow(er) of worker with two children: $32,340
- Disabled worker: $14,052
- Disabled worker, spouse, children: $23,952

Table B — Income Projection Factors

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<th>YEARS TO FIRE</th>
<th>RISK TOLERANCE</th>
</tr>
</thead>
<tbody>
<tr>
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<td>CONSERVATIVE (7%)</td>
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</tr>
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<td>35</td>
<td>25</td>
</tr>
<tr>
<td>40</td>
<td>27</td>
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Table C — Savings Factors

<table>
<thead>
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<th>YEARS TO FIRE</th>
<th>RISK TOLERANCE</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>CONSERVATIVE (7%)</td>
</tr>
<tr>
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<tr>
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</table>

“Government figures show that 89% of those 65 or older are entirely dependent on their Social Security payments. In 2017, the estimated average annual benefit paid per retired worker were $16,320 and per retired worker and spouse was $27,120.”

THE SOCIAL SECURITY ADMINISTRATION
6. Calculate what percentage of your income you need to save to reach your FIR objectives.
   a. Repeat your monthly savings amount from Step 5f.
   b. Multiply by 12.
   c. This is how much you need to save annually.
   d. Divide by your current gross annual income. (Use the combined gross income for yourself and your spouse, if applicable.)
   e. This equals the percentage of your annual income you need to save. Does this percentage seem reasonable to you?

FIR computations are very complex, so use this worksheet only as a “reality check” to estimate your current contributions toward your FIR. You should verify your results using sophisticated software or retirement plan calculators, or visit a qualified financial advisor.

<table>
<thead>
<tr>
<th>TIPS &amp; IDEAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Selling off appreciated assets such as stock or real estate in order to provide liquidity for retirement may come at a steep price, as capital gains taxes on the assets’ appreciation can reduce your net proceeds from the sale by 15%, 20%, or more. However, people interested in increasing retirement income and in supporting charity can utilize a charitable remainder trust, or a charitable gift annuity. By giving a low-basis/low-yield asset (e.g., stock which has doubled in value since purchase and pays 2% annual dividend) to charity under these arrangements, the donor receives income in the amounts of 5–8% of the trust principal (typical for a remainder trust) or even higher for a gift annuity. In addition, capital gains tax can be reduced by half or avoided altogether. Finally, the donor is eligible for a charitable income tax deduction in the year of the gift, which further improves cash flow. Consult your financial advisor for details.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>KEY ESSENTIALS</th>
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<tbody>
<tr>
<td>Let’s Review the Essentials</td>
</tr>
</tbody>
</table>

Here are the essential principles to planning your FIR

☐ 1. Learn about financial independence / retirement planning
☐ 2. Understand the power of compounding and time value of money
☐ 3. Run your numbers to learn what income you’ll need at your FIR and how much capital you’ll need to accumulate
☐ 4. Start your saving / investing plans as soon as possible, and encourage and help your children and grandchild to do the same
☐ 5. Use your Six Steps to Financial Independence / Retirement Planning Planner
☐ 6. Annually update and review your financial independence / retirement savings projections
☐ 7. Avoid the Common Mistakes in dealing with financial independence / retirement planning
☐ 8. The planning tips and ideas covered in Chapter 6

Time spent on FIR planning can make a big difference for your financial future.
CHAPTER 7

Major Expenditure Planning

Plan Ahead for Your Major Expenditures

Do you need a bigger home? Are you concerned about paying for your children's college education? Are you considering the purchase of a new car? These are all defined as major expenditures.

Major expenditures also include planned giving, whether to a family member, an educational institution, or a favorite charity. This financial category also covers travel, new computers, home remodels, and club memberships. There is no hard and fast rule as to what constitutes a major expenditure. Each household will have its own definition of “major.”

When it comes to major expenditures, it helps to be clear about what you want and what it will cost — both in today’s dollars and in funding future goals.

“Opportunities multiply as they are seized.”

Sun Tzu
Common Mistakes to Avoid with Major Expenditures

1. Failure to plan
2. Living day to day with no specific goals
3. Impulse buying based on peer or marketing pressure
4. Financing when you could have waited and paid cash
5. Lack of product research before making a major purchase
6. Unrealistic assessment of your budgeted ability to pay for major purchases
7. Procrastination

- Never own the best home in the neighborhood unless you get a great deal on it. Typically, the priciest houses on the block don’t appreciate as much as the more modest homes do.
- Pay your grandchildren’s college tuition. Gift taxes are a factor if you give a grandchild more than $14,000 (in 2017) per grandparent. But if your money goes directly to an educational institution for tuition, your gift will not be subject to the $14,000 gift tax rule.
- As often as possible, evaluate a major expenditure item on a lease or rental basis before purchasing it. However, be careful of the interest rates associated with financing the purchase.
- Consider buying a newer used car. Automobiles are being built better today than ever before. Some cars can go 100,000 miles before they need a tune-up. Significant savings can be had by buying a “certified” or late-model used car and avoiding first-year depreciation costs on a new car that are extremely high.
- Check with your insurance agent before buying a new or used car. Some cars require high insurance premiums, not just because they’re high-performance or luxury models, but because they are popular targets for theft.
The Major Expenditure Prioritizer form allows you to lay out all your proposed major expenditures on a single page so you can weigh their comparative values to you. Define each as a “need” or “desire.” You’ll set a “Priority Level” for each expenditure by describing your commitment to it. This form identifies priorities as follows:

- A = Necessity
- B = Important
- C = Optional
- D = Not Appropriate

### Instructions: Major Expenditure Prioritizer

1. Review the list of major expenditures provided. Identify those that apply to your financial life, or list new ones at the bottom of the form. Then do the following steps for each identified expenditure:

2. Determine if the expenditure is a need or desire, and assign a priority level for each. Enter the target date for achieving this particular goal.

3. Estimate the total cost you anticipate for this expenditure. If this is a long-term acquisition, make sure you take inflation into account.

4. List the funds you have allocated for this particular expenditure. Refer back to your Cash Flow Planner to make sure this amount is realistic.

5. Enter the monthly contribution you are willing and able to make toward this expenditure. Be realistic. Refer back to your Cash Flow Planner. Make sure you have budgeted this item and that you’re not making an impulsive decision.

6. Store your Major Expenditure Prioritizer in your Financial Organizer or forms binder.

<table>
<thead>
<tr>
<th>EXPENDITURES: EDUCATION</th>
<th>NEED OR DESIRE</th>
<th>PRIORITY LEVEL</th>
<th>TARGET DATE TO ACQUIRE</th>
<th>ESTIMATED TOTAL COST</th>
<th>CURRENT FUNDS ALLOCATED</th>
<th>FUTURE MONTHLY COMMITMENT</th>
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<td>Graduate school</td>
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<td>New computers or software</td>
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<td>Vacation/Trips</td>
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<td>Charities</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Going Through the Six Steps

Major Expenditures

1. **Define Your Goals**: All major expenditures are not created equal — at least in the eyes of those who have to pay for them. Here is your opportunity to determine what you want, find out how much it costs, and decide if you really need or want it. The Major Expenditures Prioritizer form at the beginning of this section lists the most common categories of major expenditures, along with examples of specific purchases or expenditures under each category. There is room for you to add items not already included.

2. **Gather & Organize Your Data**: This step involves reviewing and updating your financial position. Know how much cash or cash flow you have available for this expenditure.

3. **Analyze Your Situation**: Do you really need or want this item? Take a look at your assets and budget. Do they support this purchase now or in the future?

4. **Develop Your Strategies**: Can you acquire this item later at a lower cost? Where will the funds come from? Should you start a special savings account for the item? Brown-bagging your lunch twice a week can save at least $10 a week. That’s $500 a year that can be spent on something you’d really enjoy more. What is your action plan?

5. **Implement Your Plan**: Do you start a savings plan to fund the major expenditure? Pull money from an investment to fund the purchase? Finance it? Identify what needs to be done, and do it.

6. **Track & Monitor Your Progress**: Do this on an annual basis. Make a note on your personal *Financial Planning Calendar* as a reminder.
CHAPTER 7: Major Expenditure Planning

Let’s Review the Essentials

Here are the essential principles for planning your major expenditures

- 1. Learn about major expenditures
- 2. Begin prioritizing planned major expenditures
- 3. Use your Six Steps for Major Expenditure Planner
- 4. Avoid the Common Mistakes in dealing with major expenditures
- 5. The planning tips and ideas covered in Chapter 7

Plan for your major expenditures by going through the six-step process. This will give you the best chance of reaching your desired goals.
Learn as much as you can about your investments. This is one of the most essential elements for successful investing. When someone is trying to sell you an investment, they often have a self-serving motive. If you buy the product, they make money; if you don't, they make nothing.

Read all investment information in its entirety before deciding to invest. Make sure you understand any fees or commission structure and how long your money will be tied up in the investment.

Obtain a second opinion from a qualified disinterested investment advisor if you're unsure about any aspect of the investment.

Do not let greed or emotion influence your investment decisions.
CHAPTER 8

Investment Planning

“Be patient. If a get-rich-quick scheme seems too good to be true, it probably is.”

Your financial PARTNER

Begin Your Investment Planning Now

Saving money is not the same as investing it. Savings accounts pay interest and are usually guaranteed to be safe. However, when you factor in the effects of inflation, taxes, and the low income yields associated with savings plans, it’s easy to see that you probably will not earn enough to achieve your financial goals through a simple savings plan. That’s why wise investing is the best way to achieve financial independence and security.

Choices regarding investments affect every aspect of financial life: financial independence and retirement (FIR), major expenditures, taxes, insurance, and estate planning. There’s no way to avoid the impact of investment decisions, even if we choose not to be directly involved in the world of investing. The prices paid at the gas pump, the interest on credit cards, the value of real estate — all of these are affected by somebody, somewhere, making investment decisions.

Since it is impossible to completely avoid the investment issue, what’s the smart thing to do? Learn as much as possible about investing and the nature of your options, develop your approach to investing, and begin implementing your investment plans.

Your financial PARTNER will start you on your way (or help you if you are already investing) by outlining a systematic, disciplined approach you can use to have the best chances of reaching your goals for successful investment planning.
Understanding Investing

To make sound investment decisions, you will need to understand five important concepts:

- How Investments Earn Money
- Target Rate of Return
- Investment Risk
- Asset Allocation
- Diversification

Let’s review each of these concepts.

How Investments Earn Money

There are only three ways that investments earn money:

- **Income**: Your investments may produce income, which is the annual earnings received from the investment, such as interest, dividends, rents, or royalties.
- **Growth**: Your investments may increase in overall value, also called appreciation. Examples of growth: when a stock increases in value between the time you buy and sell it, or when a real estate or business holding increases in market value while you own it.
- **Tax Savings**: Your investments can also benefit from tax savings such as write-offs, credits, charitable deductions, or tax-free income.

Most types of investments emphasize only one of these benefits, but some investments seek to combine the three opportunities to increase in value. For example, you can invest in some stocks that pay dividends and whose share price may also increase. When this occurs, you benefit from both income and growth earning power. When you analyze an investment for its “total return,” you therefore combine the earnings from all of the three ways the investment has earned money.

**Note**: Do to changes in tax laws that have minimized the potential for tax savings, today’s investment strategies focus mostly on income and growth.

Common Mistakes to Avoid in Investment Planning

- 1. Unorganized finances
- 2. Investing without clearly defined objectives
- 3. Not understanding your current or potential investments
- 4. Not understating your or your spouse/partner’s risk tolerance
- 5. Improper asset allocation and diversification
- 6. Being sold investments instead of finding them
- 7. Selling in a panic
- 8. Not using principles of compounding/time value of money
- 9. Not using investment advisors wisely; not getting a second opinion on major investments
- 10. Procrastination

**Asset Allocation**: The process of diversifying investment dollars among a variety of asset classes such as cash equivalents, stocks, bonds, real estate, and precious metals.

**Asset Classes**: A group of investments that have similar financial characteristics, behave similarly in the marketplace, and are subject to similar laws, regulations, and taxes. The main asset classes are cash and cash equivalents, bonds bond mutual funds and other fixed-income investments, stocks and stock mutual funds, and Other assets that include individually owned real estate, small businesses, partnerships, venture capital, life insurance and hard assets.

**Diversification**: The portfolio strategy of reducing risk by investing in a variety of assets. It is closely related to asset allocation and is based on the principle of not putting all your eggs in one basket. It includes allocating assets over a wide range of asset classes along with a range of holding within each asset class.
Target Rate of Return

The Financial Independence and Retirement and Major Expenditure chapters showed you the importance of planning and establishing goals. Investing is the key to reaching those goals as quickly as possible.

Once you decide to invest in a strategy to achieve your goals, it is important to understand the concept of “target rate of return.” The term refers to the total return that you need to obtain from your investments in order to reach your goals. Determining your target rate of return will help you determine which investments might be best for you.

Your target rate of return can be calculated using the following:

- The amount of your current investment holdings
- The amount of your future savings
- The length of time you will be investing
- The amount of your goal

Because it takes into account compounding interest and the time value of money, the calculation is complex and therefore is best done using a financial calculator or a computer.

Here’s an example:

- You have determined that one of your major expenditure goals is to have $50,000 for your child’s college education. You currently have saved $18,000 toward that goal, and you intend to make regular monthly contributions of $100 over the next 10 years.
- If you were to save $100 per month without investing, you would have $1,200 per year, amounting to $12,000 over 10 years. Added to your current $18,000, your simple savings plan yields only $30,000, which is not enough to reach your $50,000 goal.
- To rectify this shortfall, you need to figure out what target rate of return would be required to turn your current investments and future contributions into $50,000 over 10 years. Using a financial calculator, you would find that you need to achieve 6.21% as a rate of return to reach your goal.

Having identified your target rate of return, you can now proceed to make wiser investment decisions, specifically concerning which type of investments are most appropriate (because they are more likely to achieve your target rate of return), and what risks might be associated with those investments.

Let’s take a look at risk and how this factor affects your investment decisions.

Investment Risk

Risk is the uncertainty associated with the outcome of an investment. An investment might grow or it might decline — or even disappear. The problem for investors is that they can’t know the outcome in advance, hence the risk.

So how does an investor weigh the risk associated with different investments? How can you assess the risk you assume when you put money in a bank account or buy a stock, bond, or mutual fund?

There are three principles to consider in assessing investment risk and in determining your “risk tolerance.” To help explain these principles, review this comparison between two investors.

- Investor #1 is saving for a car that he wants to buy in one year. He puts his money into a savings account at a bank, where the principal (original amount of money deposited) is guaranteed. (Bank deposits are generally insured up to $250,000.) This investor invests with confidence and has very little risk of losing principal. However, the bank pays only .5% interest on savings accounts. While the earning power of this investment is small, this investor can sleep at night. The investor knows his money will grow at the .5% rate each year, but it will all be there when needed.
- Investor #2 is investing for her financial independence and retirement (FIR) in 20 years. She invests her money by buying
stock in a company. She understands that there is limited security in this investment, because the firm might or might not do well in each of the next 20 years. If the company does not perform well in any given year, the stock price might drop and the principal will decline. If the company is profitable though, its stock price will likely increase and the investment will grow. This investor understands that, historically, stock market prices fluctuate greatly over time, but in general, the market rises over the long term. Since 1928, U.S. stock market returns have averaged around 9% – 11% per year. This investor is therefore willing to take the greater short-term risk for a greater long-term potential reward. She knows she won’t need her money for 20 years and is willing to ride out the market fluctuations.

These two scenarios illustrate the following three principles for assessing investment risk.

- **Investment Risk Principle #1** — There is a strong correlation between risk and reward.
  
  In investment scenarios, risk and reward are proportionately linked, as follows:
  
  • The less risk you are willing to take with your investments, the less your potential reward.
  
  • The greater risk you are willing to take with your investments, the greater your potential reward.
  
  This logic makes sense. An investor who is willing to take a greater risk demands a greater reward. Investor #1 is willing to accept a lower return for the confidence that his investment is guaranteed. Investor #2 is willing to take a higher risk in the stock market, knowing that her reward could average around 9% over 20 years.

- **Investment Risk Principle #2** — The longer your “time horizon,” the more risk you can take.
  
  Time horizon refers to the length of time you intend to invest. Three broad categories of time horizons are:
  
  • Short term — less than 3 years
  • Intermediate term — 3–9 years
  • Long term — more than 9 years

  Time horizon is important in assessing your risk tolerance because markets continuously rise and fall. As you probably know, banks offer a slightly different interest rate each month on savings accounts; the price of stocks and bonds goes up and down daily; even real estate prices fluctuate from day to day.

  The risks of each type of asset vary with the time horizon. If you can invest for only one year, your stock market investments might suffer from the whim of a down market on the day you want to convert it to cash. But if you can invest for 5, 10, or 20 years, the probability is strong that your stock market investments will have grown.

  This means that younger investors who are investing for financial independence and retirement can accept a greater degree of risk because they have a longer time horizon in which to recover short-term losses. In contrast, an older person may not wish to take the greater risk with his or her FIR savings, which could be seriously affected by a short-term downturn in the marketplace.

- **Investment Risk Principle #3** — All investments have some degree of risk.
  
  When all types of risk are considered, no investment is fully without risk. Here are two of the most important types of risks to be aware of:

  • **Principal Risk:** This is what most of us imagine when we think about risk: losing some or all of our original investment. Such losses can occur when there is a decline in the market value of an investment. The most common example occurs when you purchase a stock at a certain price, and then, when you need to sell it, it is
worth less than your original purchase price. Your investment is therefore worth less money than you invested. In other words, your principal has declined.

- **Buying Power Risk**: This risk, often forgotten by investors, results from the inflation rate being higher than the growth rate of your investment. For example, imagine that you invest in a savings account that pays 1.5%, or a stock that returns only 1.5% that year. Meanwhile, inflation reaches 3% that same year. While your principal has not declined, and your investment has grown, its buying power has not. You have actually lost 1.5% of your money’s ability to work for you.

Some types of investments, such as stocks, are more prone to principal risk because they are more volatile. Other types of investments, such as cash savings accounts, are more prone to buying power risk because they are more stable and do not keep up with market trends. Completely eliminating buying power risk greatly exposes you to principal risk, and vice versa. The key is to balance the risks based on your objectives.

### Assessing Your Risk Tolerance

The level of risk you are willing to take, called your risk tolerance, can be determined by applying the three principles of risk to your situation. Each principle leads you to think about the following questions:

- What is my target rate of return? If I want a high return, am I willing to accept greater risk? If I am uncomfortable taking a greater risk, will I accept a lower return, even if I won’t reach my goal?

- What is my time horizon? Will I need my money within a short time period or can I leave it invested for a long time?

- Am I willing to risk my principal? If not, am I willing to incur buying power risk?

To answer such questions, begin by examining each of your investment goals and your personal characteristics.

- Your investment goal should give you a clear idea of your time horizon (long or short) and the type of return (high or low) you should target. If you have a long time horizon and you need a high return to meet your goal, you might decide you are willing to accept a higher risk. If you have a short time horizon, and your peace of mind is more important to you than your rate of return, you might decide to make only a low-risk investment.

- Your personal characteristics — such as age, personality, and financial status — are also major factors in assessing your risk tolerance. An investment that causes one person to lose sleep may be a thrill for another. Wealthier individuals may be able to afford more risk. Some individuals with high future needs may feel compelled to risk more in order to reach their goals, while others may refuse to take more risk out of fear of not reaching those goals. Personal characteristics account for the difference in risk that two people are willing to accept, even if they have the same ultimate goal.
The Five Types of Investors

In general, investors fall into one of the following five “risk profiles”:

- **Risk-averse investor**: Those willing to accept virtually no risk on their principal.
- **Conservative risk-taker**: Those who seek to preserve their principal, but are willing to assume a small degree of risk.
- **Moderate risk-taker**: Those who give equal importance to the preservation of principal and the potential for investment return.
- **Moderately aggressive investor**: Those who place investment return ahead of the preservation of the principal.
- **Aggressive risk-taker (speculator)**: Those willing to assume almost any risk in exchange for the greatest potential investment return.

Which risk profile best describes you? If you are uncertain, answer the following risk assessment questions. These simple questions ask you about your goals and personality to help you determine which risk profile best describes you.

Determine Your Risk Tolerance

Answer the following questions as they pertain to a particular investment goal, such as FIR, funding college education, etc.

1. **Describe your investment experience**
   a. _____ Little knowledge and experience
   b. _____ Some knowledge and experience
   c. _____ Very knowledgeable and experienced

2. **How long could your emergency cash reserves last you?**
   a. _____ Less than 3 months
   b. _____ 3 to 6 months
   c. _____ Over 6 months

3. **Approximately what percentage of your income goes to debt repayment (not including your mortgage)?**
   a. _____ Over 20%
   b. _____ 10 to 20%
   c. _____ Less than 10%

4. **What type of investments would you invest in?**
   a. _____ Cash accounts only
   b. _____ Cash accounts and annuities
   c. _____ Cash accounts, annuities, and mutual funds
   d. _____ Cash accounts, annuities, mutual funds, stocks, real estate, and businesses

5. **Suppose that a month after you make an investment, it loses 20% of its value overnight. If none of the reasons you invested have changed, what would you do?**
   a. _____ Sell it as soon as possible
   b. _____ Sell it when it gets back to what you paid for it
   c. _____ Accept it as a market fluctuation
6. Listed below are some best and worst cases of a $20,000 investment after 10 years. Which “Best case – Worst case” range is acceptable to you?
   a. ___ Best case – $28,000  Worst case – $25,000
   b. ___ Best case – $44,000  Worst case – $20,000
   c. ___ Best case – $80,000  Worst case – $15,000

7. When will you need to start withdrawing money from your investment portfolio?
   a. ___ less than 3 years
   b. ___ in 3 to 8 years
   c. ___ more than 8 years from now

8. Once you begin withdrawing money from your portfolio, how long will it take you to spend it?
   a. ___ less than 1 year
   b. ___ from 1 to 4 years
   c. ___ from 5 to 8 years
   d. ___ more than 8 years

   To score yourself, count up how many answers you marked a, b, c, or d and note it in the “Total” answer column. Multiply these totals by the number in the Factor column. Then add up the results and find your Total Points in one of the categories that follow.
Asset Allocation

Asset allocation is an investment strategy that places your money into a variety of asset classes to better control your risk and adhere to your target rate of return. Asset allocation has been shown to be far more successful at achieving an investor’s goals than specific stock or mutual fund selection or market timing.

Asset allocation is based on the principle that the many classes of investments rise and fall in cycles that are interdependent. While one class may be rising, another may be declining. By spreading your investments out among many different asset classes, you can average out decreases with increases, reduce risk, and thus achieve greater control of your overall investment return. In fact, by allocating assets in a highly strategic way based on historical returns, you can predict with a higher degree of probability the return on a given mix of investments, as well as the overall risk involved.

Think of asset allocation this way: there are money market funds, stocks, bonds, mutual funds, deeds of trust, real estate, business ventures, and other types of investments. They each have their own degree of risk and historical market cycle that provides us with knowledge about their potential return rate. If you construct your portfolio with a variety of investment classes, you will have a higher probability of success in achieving your target rate of return over a specified period of time.

Money managers who use asset allocation often divide investments into two broad categories, Fixed Income and Growth, which then can be further divided into classes, as shown in the flowchart on the following page.
The top half of the flowchart shows “Fixed Income” investments, which are characterized as “debt” instruments. Fixed income investments tend to carry lower principal risk but higher buying power risk. These investment classes include cash, cash equivalents, bonds, bond mutual funds, and other fixed income assets, including certificates of deposit, deeds of trust, personal notes, and other such assets with a maturity of over three months.

The bottom half shows “Growth” investments, which represent ownership of an asset or shares of a company. Growth investments tend to carry higher principal risk but lower buying power risk. These investment classes include stocks, stock mutual funds, and other types of investments, including individually owned real estate, partnerships, business interests, venture capital, in hard assets (such as precious metals, art or collectibles), businesses, life insurance and other assets that do not fit into the defined asset classes.

In doing asset allocation plans, many money managers choose to exclude the “Other Asset” class from model portfolios. This is because such assets are often illiquid (difficult to sell due to a limited number of interested buyers), are hard to evaluate (require expensive appraisals that take time to perform), and have no traceable investment history.

If you are a small-business owner or active real estate investor, or if “Other Assets” make up a large percentage of your investments, you may wish to exclude the “Other Asset” class from your model portfolio plan. These assets should then be managed individually or as a separate portfolio.
Example of Asset Allocation

Consider the case of two different investors who fall into different risk profiles. According to asset allocation, each investor constructs a portfolio from among the investment classes as shown in the chart below.

- The investor who prefers lower risk emphasizes investments that fall into the Fixed Income category. The portfolio contains less volatile investments, such as cash and bonds, whose risks to principal are lower. However, the investor will probably achieve a lower return.
- The investor who accepts higher risk emphasizes investments that fall into the Growth category. The portfolio contains more stocks, real estate, and other assets whose risks are higher. However, these investors will probably achieve a higher return.

Assume five investors had invested from 1973 to 2017. The table below illustrates the breakdown by asset class of each investor’s portfolio and the actual returns that each investor would have achieved.

It is interesting to note the rows in the table that show the highest and lowest one-month return and annual return of each portfolio, which together indicate the portfolio’s volatility. Also, notice the differences in the Standard Deviation of each of the five model portfolios. Standard deviation is a specific measure of volatility. Generally, the more volatile the investment, the greater the risk to your principal. The charts on the following page illustrate each portfolio’s asset allocation.

### MODEL PORTFOLIO

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
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<tr>
<td>Fixed Income</td>
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<tr>
<td>Cash</td>
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<td>40%</td>
<td>30%</td>
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<tr>
<td>International Bonds</td>
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<td>Total Fixed %</td>
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<td>Growth</td>
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<td>U.S. Large Company Stock &amp; Stock Mutual Funds</td>
<td>4.0%</td>
<td>8.0%</td>
<td>12.0%</td>
<td>16.0%</td>
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<td>U.S. Large Company Value Stock &amp; Stock Mutual Funds</td>
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<td>U.S. Small Company Stocks &amp; Stock Mutual Funds</td>
<td>4.0%</td>
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<td>International Stocks &amp; Stock Mutual Funds</td>
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<td>International Small Stocks &amp; Stock Mutual Funds</td>
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<td>Real Estate Investment Trusts (REITs)</td>
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<td>Total Equity %</td>
<td>25%</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
<td>100%</td>
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<td>Average Annual Rate of Return (1973 to 2017)</td>
<td>7.8%</td>
<td>9.3%</td>
<td>10.8%</td>
<td>12.1%</td>
<td>13.4%</td>
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<tr>
<td>Lowest Three Month Return</td>
<td>0.6%</td>
<td>(4.3%)</td>
<td>(9.2%)</td>
<td>(14%)</td>
<td>(18.8%)</td>
</tr>
<tr>
<td>Highest Three Month Return</td>
<td>17.3%</td>
<td>21.6%</td>
<td>27%</td>
<td>32.6%</td>
<td>38.3%</td>
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<tr>
<td>Lowest Annual Return</td>
<td>(9.6%)</td>
<td>(21.8%)</td>
<td>(32.6%)</td>
<td>(42.5%)</td>
<td>(51.0%)</td>
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<td>Highest Annual Return</td>
<td>25.4%</td>
<td>33.7%</td>
<td>46.1%</td>
<td>63.3%</td>
<td>82.8%</td>
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<td>Standard Deviation</td>
<td>3.7%</td>
<td>6.4%</td>
<td>9.3%</td>
<td>12.3%</td>
<td>15.3%</td>
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Asset Allocation Models

Note: Total Portfolio Returns are based on actual index returns using DFA Returns Program data with portfolios rebalanced annually.
**Model Portfolio A — Lowest Risk (for the Risk-Averse Investor)**

This model provides the lowest level of risk. Notice that the portfolio is composed of 80% fixed income investments (20% Cash, 40% U.S. Bonds, 20% International Bonds) for greater stability, and 20% equity investments. Of all five models shown, this model has the lowest average annual rate of return (7.8% from 1973 to 2017), but also the lowest degree of volatility (3.7% Standard Deviation), which is reflected in its highest and lowest returns over three months and one year.

**Model Portfolio B — Low Risk (for the Conservative Risk-Taker)**

This model has reduced the fixed income investments in the portfolio to 60% (15% Cash, 30% U.S. Bonds, 15% International Bonds), while increasing the equity side to 40%. The average annual rate of return of this portfolio was 9.3% from 1973 to 2017.

**Model Portfolio C — Medium Risk (for the Moderate Risk-Taker)**

This model has reduced the fixed income investments in the portfolio to 40% (10% Cash, 20% U.S. Bonds, 10% International Bonds), while increasing the equity side to 60%. The average annual rate of return of this portfolio was 10.8% from 1973 to 2017.

**Model Portfolio D — High Risk (for the Moderately Aggressive Investor)**

This model denotes a major change in philosophy, investing only 20% in fixed income (5% Cash, 10% U.S. Bonds, 5% International Bonds) and 80% in equity investments. The resulting average annual rate of return was 12.1% (4.3% greater than Model A). However, the volatility as measured by standard deviation is almost three times the volatility of Model A (12.3% versus 3.7%).

**Model Portfolio E — Highest Risk (for the Aggressive Risk-Taker)**

This is the most aggressive model, placing assets only in equity investments. The resulting average annual rate of return was 13.4%. This portfolio had the highest annual return of 82.8% and the lowest annual return of (51.0%), and had the greatest risk as shown by the swing in highest and lowest returns over three months and one year time periods from 1973 to 2017.
 Asset Allocation Rebalancing

Using asset allocation does not mean that you can invest and then forget about your portfolio. You should consider “rebalancing” your portfolio periodically, perhaps quarterly, semiannually, annually, or when any asset class falls or grows over a defined percentage, such as 20%. This creates a “buy low, sell high” opportunity for you, maintains investment discipline, and provides a tool to manage your investment risk exposure.

For example, imagine that you invest $100,000 in a portfolio similar to Model Portfolio D. Your initial investment is divided into 80% growth ($80,000) among several classes of domestic and international stocks, and 20% ($20,000) into fixed income investments, including cash and bonds.

Now assume that the stock market performs extremely well in the first nine months of the year, so that your growth investments are now worth $110,000 while your fixed investments have decreased to $18,000. Your total portfolio is now worth $128,000. You are no longer in balance though, because your growth side now represents 86% of your total portfolio ($110,000 divided by $128,000). If you wish to rebalance, you will need to move approximately $7,600 from your growth assets to the fixed side of your portfolio, so you can maintain your 80/20 ratio of growth to fixed income investments.

To add maximum value to rebalancing, you should consider the tax consequences. If you have multiple holdings in each asset class, spread them among your tax-deferred (401(k), IRAs, etc.), tax-exempt (Roth IRAs), and taxable (non-retirement plan brokerage) accounts. By doing this, you can sell tax-deferred or tax-exempt assets when you rebalance without incurring unnecessary income taxes.

 Diversification

Diversification, closely related to asset allocation, is based on the principle “Don’t put all your eggs in one basket.” Not only do you want to allocate your holdings across a wide range of asset classes, but you also want to diversify your holdings within a particular class of assets.

For example, if you own a sizable number of U.S. large company stocks, it would be prudent to diversify your holdings among companies that represent different industries rather than owning stock in many companies within the same industry. In this way, in the event the industry as a whole suffers from an economic downturn, your risk is reduced.

 What Investments Are Best for You?

So, how should you invest? What factors should you consider? Use the following as your guidelines:

- Identify your goals and determine your target rate of return.
- Assess your risk tolerance by examining your goals and your personal characteristics.
- Take into consideration your time horizon.
- Be sure your risk tolerance is in alignment with your target rate of return. If not, make adjustments. You may need to modify your target rate of return if you are not willing to accept the risks associated with the investments needed to achieve your target rate of return.
- Develop an asset allocation plan that best matches your investment goals and investor profile.
- Rebalance your portfolio to remain in line with your target rate of return and investment profile.

There are no “get rich quick” schemes that can be counted on. If you are uncomfortable with the uncertainty of investments or are not sure of yourself in this area, consult with an investment advisor for assistance, or at least a second opinion before making major investment decisions.
Going Through the Six Steps

Investments

1. Define Your Goals: This may be the most important step in the process of investment planning. Answering these three questions is essential to achieving investment success.

   - What are your financial goals?
   - What is your risk tolerance?
   - What is your target rate of return from your investments?

Always focus on FIR and major expenditures before developing investment plans. What financial goals do you want to attain through investments? Here are a few examples:

   - To become financially independent in eight years and receive $18,000 per year from your investment holdings
   - To find appropriate investments that would support the purchase of a luxury car in three years
   - To retire in 25 years on a comfortable income of $40,000 per year in today’s dollars
   - To provide for your two children’s college education. The oldest begins college in five years, the youngest in eight. You estimate each one’s four-year education will cost $50,000 in today’s dollars.

2. Gather & Organize Your Data: This stage involves verifying your financial position and identifying how your current investment assets are classified. Start by referencing your Net Worth Statement previously addressed in Chapter 2. A review of your financial position is always in order before making any major investment decision.

3. Analyze Your Situation: The question here is usually focused on whether your current investments are generating appropriate returns for the risk involved. This step often involves a careful consideration of two issues: asset allocation and investment diversification.

4. Develop Your Strategies: Identify investment alternatives and techniques. Based on your personal experience, what types of investments are you most comfortable with? Is there additional research required before your investment decision is made? Should you consult with an advisor? Use the Investment Policy Statement & Plan forms that follow to facilitate this step.

5. Implement Your Plan: Solidify your investment plan. Reposition your assets, if needed. Be sure you’ve analyzed your risk vs. expected reward. There are no “get rich quick” schemes that can be counted on. If something seems too good to be true, it probably is.

6. Track & Monitor Your Progress: Do a quarterly or annual review. Make a note on your Financial Planning Calendar as a reminder.
To assist you with investment planning, your financialPARTNER provides you with an Investment Policy Statement & Plan form. It is designed to help define, summarize, and record your investment plans in one place to help keep you on track in reaching your goals. Investments are not guaranteed and can be unpredictable. If you are uncomfortable with the uncertainty of investments or are not sure of yourself in this area, consult with an investment advisor for additional assistance.

Instructions: Investment Policy Statement & Plan

1. Make a copy of the Investment Policy Statement & Plan to record each major investment goal, such as financial independence and retirement, funding education, home purchase, etc.

2. Start by defining each of your investment goals. Be sure to include details such as amount needed, target rate of return, assumed inflation rate, time horizon before liquidation or significant modification, and targeted monthly savings for this goal.

3. Decide which investments are acceptable for you: real estate, stocks, stock mutual funds, etc.

4. Define your principal risk tolerance. How much principal risk can you afford or are you willing to risk in any one-year period — 1%, 5%, 10%, or more?

5. Define your desired level of personal involvement. How active do you want to be with your investment management — very active, or passive? Explain.
6. Next, solidify your criteria for investments and asset allocation by completing the information outlined on the form.
   - **Keep liquid cash equivalent of at least:** As a rule of thumb, consider keeping 3 to 6 months of living expenses in personal cash that is not part of your investment plan.
   - **Maximum percentage of investment assets in any one investment:** As a rule of thumb, consider keeping no more than 15% of your investment net worth in any one particular investment asset.
   - **Date this plan should be reevaluated:** Investment plans should be tracked and monitored on a monthly, quarterly, semiannual, or annual basis.
   - **Current Money Manager:** List yourself or your current money manager here.

7. **List your Current Allocation.** Using the listed Asset Classes, list your investment assets from your Net Worth Statement.

8. Calculate and record the percentage of each asset as it relates to your total investment funds.

9. Begin developing your model allocation plan. For this step, you may wish to consult with an investment advisor.

10. Compare your Current Allocation with your Model Allocation and note any necessary changes in the Current Allocation Adjustments column (column 1 minus column 2). Here you may wish to exclude special or illiquid assets from the model.

11. Total the Target Portfolio column by adding the Current Allocation to the Current Allocation Adjustments (column 2 plus column 3).

12. Implement any appropriate adjustments or reallocations.

13. Review and update your Investment Policy Statement & Plan at least annually, or more frequently if changes occur to your situation.

14. Review and rebalance your Asset Allocation at least annually, or more frequently, depending on your situation.

To determine the appropriate number of years it will take for your principal to double, divide 72 by the rate of return. For example, at a rate of 7%, your principal will double in 10.3 years (72 ÷ 7 = 10.3 years).

How much time and energy are you willing to commit to your investments? Active investors spend a good portion of their time studying and adjusting their portfolio. Few are rewarded for their efforts. Most people have neither the time, interest, nor expertise to devote to this pursuit. How involved do you want to be? Using a qualified investment advisor may very well be the best path for you to follow.

Don’t get so caught up in making money with investments that you forget the IRS. If you do manage to earn double-digit returns, only to lose ½ of your gains to the IRS, state and local taxing authorities. You might have accumulated $25,000 for your son’s education, but after Uncle Sam gets his cut, there may be less than $20,000 left. Consider and compare the tax affects of each buy and sell taxable transaction along with using tax-exempt or tax-deferred investments.

Involve your children in personal finance. The earlier they learn how to manage money, the better their chance of obtaining financial success. Take responsibility for their well-being now by teaching them the value of saving and investing. (See Chapter 3 for some helpful guidelines.)

Let’s Review the Essentials

Here are the essential principles for investment planning

1. Learn about investments
2. Determine your and your spouse/partner’s risk tolerance
3. Avoid investing without clearly defined objectives
4. Use your Six-Steps to Investment Planning Planner
5. Annually review and update your Investment Policy Statement & Plan
6. Properly asset allocate your investments
7. Have sufficient investment diversification
8. Avoid being sold investments instead of finding them
9. Use investment advisors wisely; get a second opinion when making a major investment
10. Avoid procrastination
11. Avoid the Common Mistakes in Investment Planning
12. The planning tips and ideas covered in Chapter 8

Investment planning is a lifelong process. Solidify your investment strategies now by following the six-step investment planning process.
Reduce Your Taxes

It’s true: Taxes are an inevitable part of life. But that doesn’t mean there’s nothing you can do to lower your share of what’s going to the government. Even though taxes are a fact of life, the laws that regulate them are constantly changing. Your financial plans and investment strategies should include tax considerations. Opportunities for minimizing tax obligations are available to anyone willing to take advantage of them.

Almost every financial decision, whether it involves investments, retirement, housing, or estate planning, has some kind of tax implication. It’s unfortunate that most people choose to focus on taxes only when preparing their tax returns. They miss opportunities to adjust their financial activities to their advantage. Some of the financial events that require tax attention when they occur include:

- Selling your house
- Refinancing your mortgage
- Taking a withdrawal from an IRA
- Recognizing a capital gain through stock sales or mutual fund distribution

Most life events also have tax implications which should be addressed. These include:

- A birth or death in the family
- Marriage or divorce
- Changing jobs or becoming self-employed
- Retirement
- Inheritance

It’s quite possible to reduce your tax obligations in ways that are both legal and ethical. Every dollar you save through tax planning can be used to fund other goals. Understanding tax planning is the first step.
Common Mistakes to Avoid in Tax Planning

☐ 1. Unorganized finances
☐ 2. No pro-active tax planning
☐ 3. Not taking advantage of available deductions
☐ 4. Consistently receiving tax refunds
☐ 5. Failing to take advantage of salary reduction options such as a 401(k) plan
☐ 6. Not seeking tax advice before entering into a major transaction
☐ 7. Keying in tax data improperly when using tax preparation software
☐ 8. Aggressively using tax-sheltered investments
☐ 9. Procrastination

Adjusted Gross Income (AGI): The amount of income remaining after certain adjustments are subtracted from a taxpayer’s gross income.

Alternative Minimum Tax (AMT): A complicated income tax that is activated when there are excessive deductions and tax benefits.

Capital Gains Tax: The profits realized when certain appreciated investments, such as stocks, bonds, mutual funds and real estate, are sold. Capital gains can be either short term (held less than one year) or long term. The federal long term capital gains top tax of 15% on most assets held over 1 year. There’s a 3.8% Unearned Medicare Surtax, to net investment income for taxpayers with adjusted gross income (AGI) over $200,000 (single filers) or $250,000 (married filing jointly).

Estate Tax: For 2017 there is a federal estate tax exclusion of $5.49 million per person, indexed for inflation, and a top estate tax rate set at 40%.

Excise Tax: The manufacture, sale, and purchase of tobacco, alcohol, telephone services, and airline tickets are subject to federal excise tax.

Gift Taxes: Lifetime gifts made in excess of the annual gift tax exclusion per donee ($14,000 subject to future inflation adjustments) for 2016 receive an exclusion amount of $5.49 million, indexed for inflation, with additional gifts taxed at a top tax rate of 40%.

Income Taxes: Depending on the amount of income earned and where you reside, there can be federal, state, and local income taxes. For 2017 the federal income tax brackets can reach as high as 39.6% plus a 3.8% Unearned Medicare Contribution Surtax.

Property Taxes: Some cities, counties, and states collect tax on property such as real estate, automobiles, and business property.

Sales Tax: Most states, counties, and cities tax retail sales. Only Alaska, Delaware, Montana, New Hampshire, and Oregon have no sales tax.

Self-employment Taxes: For 2017 self-employed individuals must pay Social Security and Medicare taxes of 15.3% on the first $127,200 earned and 2.9% (Medicare only) on the balance of their income, plus an additional .9% Medicare tax on high wage earners.
tax return (which should be stored in your Financial Organizer), and adjust your income and deductions as projected for the current year. Refer to your Cash Flow Planner discussed in Chapter 3.

3. **Analyze Your Situation**: Tax planning starts with a tax calculation—a projection of your tax liability. Based on your current tax situation, it is essential that you know where you stand and where you’re going. Later in this discussion, you will find the Tax Planner. This form will assist you in making well-informed tax decisions when dealing with tax-related events. If you are not comfortable with preparing a tax calculation, seek professional advice.

4. **Develop Your Strategies**: This step involves the careful consideration of options to lessen your tax burden, the essence of tax planning. There is usually more than one solution to reducing income taxes. Consult with your tax advisor to develop or verify your own strategies to reduce taxable income, increase deductible expenses, and determine tax credits.

5. **Implement Your Plan**: Once you’ve identified what needs to be done, it’s time to do it. Use your Tax Planner at the end of this discussion to help you recap your tax planning efforts.

6. **Track & Monitor Your Progress**: If you have variable or unpredictable income and expenses, you should track and monitor your progress on a quarterly basis and when faced with an event that involves tax consequences. If you qualify to use itemized deductions or have variable income, make sure to review your tax calculations in April, September, and December. If your income and deductions are stable and predictable, review your tax calculations in April and December.
There are few things more frightening in life than an audit by the IRS. Determining one’s risk for being audited is another common objective of tax planning. Your chance of being audited is affected not only by your income and net worth, but also by the tax region in which you file your returns. In 2015, the IRS examined less than 1.00% of all individual returns filed. Audits for self-employed individuals have a higher risk. The chart below shows variations by income level.

<table>
<thead>
<tr>
<th>Audit Chances</th>
<th>(From the Internal Revenue Service Data Book, 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Likelihood of Audit</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Individuals: Non-Business Income</strong></td>
<td></td>
</tr>
<tr>
<td>1040</td>
<td>0.84%</td>
</tr>
<tr>
<td>$1–$24,999</td>
<td>1.01%</td>
</tr>
<tr>
<td>$25,000–$49,999</td>
<td>0.50%</td>
</tr>
<tr>
<td>$50,000–$74,999</td>
<td>0.47%</td>
</tr>
<tr>
<td>$75,000–$99,999</td>
<td>0.49%</td>
</tr>
<tr>
<td>$100,000–$199,999</td>
<td>0.64%</td>
</tr>
<tr>
<td>$200,000–$499,999</td>
<td>1.54%</td>
</tr>
<tr>
<td>$500,000–$999,999</td>
<td>3.81%</td>
</tr>
<tr>
<td><strong>Business Returns</strong></td>
<td></td>
</tr>
<tr>
<td>Corporation Income Tax Returns ((Except 1120S)</td>
<td>1.30%</td>
</tr>
<tr>
<td>Partnership Returns</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

Tax laws change frequently, and the tax codes are more complicated than ever. They are filled with traps for the uninformed. Consult with your tax advisor before making any major financial decision. You are the one who will be held responsible for the tax consequences.

Don’t purposely “over-withhold” taxes as a means of “forced savings.” The resulting tax refund is nothing to be happy about. During the tax year, you’ve given the government an interest-free loan. You’d be much better off by putting that money aside each month in an interest-bearing account. Remember, pay yourself first, not the government.

Married homeowners may exclude up to $500,000 in gains from the sale of a principal residence ($250,000 for single taxpayers). This tax break is renewable every two years. However, there are complex rules covering five-year ownership, unforeseen events, and marital status.

Offset capital losses with capital gains made by selling investment assets that have appreciated in value. The net effect: zero gain, zero tax.

If you are being aggressive with your tax strategy and you have an unincorporated business (using a Schedule C tax form), consider changing to a Limited Liability Company (LLC), Small Business Corporation, or Family Partnership. This could substantially lower your audit exposure.
Lower Income Taxes

Successful tax planning operates on the principles of deferral, tax bracket timing, and use of available deductions. There are basically only two ways to lower your income taxes:

- Increasing deductions and credits
- Reducing taxable income

The following are some strategies to consider.

Increasing Deductible Expenses and Tax Credits

Take advantage of every deduction available to you. Itemized deductions include, but are not limited to, the following:

- Medical costs, if they exceed 10% of your Adjusted Gross Income (AGI). Those 65 and older can deduct medical expenses that exceed 7.5% of their AGI until the end of 2017.
- Long-term care insurance premiums are subject to certain dollar limits and the 10% and 7.5% AGI floor noted above.
- Certain taxes, such as state and local income taxes and property taxes.
- Certain interest expenses, such as home mortgage interest.
- Certain charitable contributions, to qualified charities.
- Casualty and theft losses if they exceed 10% of your AGI.
- Certain fees and expenses related to taxes and investment advice, and unreimbursed business expenses exceeding 2% of your AGI.

For 2017 high-earning taxpayers will be limited on certain itemized deductions when their Adjusted Gross Income (AGI) exceeds $261,650 for single taxpayers and $313,800 for married couples filing jointly.

Under certain circumstances, you may be better off grouping deductions every other year. The idea is to accelerate deductions for a year in which you are in a higher tax bracket and postpone deductions for years in which you are in a lower tax bracket. Accelerate deductions by using the following strategies:

- Pay your fourth-quarter state income tax estimate in December instead of January.
- Pay your January mortgage payment in December.
- Make two annual charitable contributions in December.
- Pay next year's property taxes before year-end.

### Average Itemized Deductions — 2015 Tax Returns

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>Medical &amp; Dental</th>
<th>Taxes</th>
<th>Interest</th>
<th>Charitable Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,001-$30,000</td>
<td>$ 7,688</td>
<td>$ 3,310</td>
<td>$ 7,190</td>
<td>$ 2,184</td>
</tr>
<tr>
<td>$30,001-$50,000</td>
<td>$ 6,939</td>
<td>$ 3,932</td>
<td>$ 7,047</td>
<td>$ 2,404</td>
</tr>
<tr>
<td>$50,001-$100,000</td>
<td>$ 7,988</td>
<td>$ 6,201</td>
<td>$ 8,310</td>
<td>$ 2,990</td>
</tr>
<tr>
<td>$100,001-$200,000</td>
<td>$ 9,634</td>
<td>$10,848</td>
<td>$10,399</td>
<td>$ 3,939</td>
</tr>
<tr>
<td>$200,001-$250,000</td>
<td>$17,667</td>
<td>$17,556</td>
<td>$13,334</td>
<td>$ 5,667</td>
</tr>
<tr>
<td>$250,001 plus</td>
<td>$33,521</td>
<td>$49,986</td>
<td>$18,786</td>
<td>$22,001</td>
</tr>
</tbody>
</table>

Note: Above averages are based on returns claiming a deduction for a particular category. Example: If no medical expenses are claimed on Schedule A, the zero amount does not reduce the overall average. Source IRS Individual Returns Preliminary Data 2015, compiled by Wolters Llauer, CCH: 2015

Reducing Taxable Income

Taxable income can be deferred by shifting income from one taxable year to the next. The reasons to consider this strategy are: first, if you are going to be in a lower tax bracket next year, you save tax dollars; and second, by delaying receipt of income, you get to hold on to your tax dollars longer. This strategy can be accomplished by:

- Purchasing a CD or Treasury Bill that matures the following year. The interest will be taxed next year, not the current year.
- Delaying the sale of capital gain property until next year.
- Delaying receipt of a year-end bonus until next year, assuming you can avoid the constructive receipt rules.
If you are going to be in a higher tax bracket next year, income can also be accelerated and expenses postponed by using the opposite of the preceding techniques. For example, purchase a CD that matures this year or the year after next.

Taking Advantage of Your Employment Benefits

As discussed in Chapter 4, take advantage of your employment benefits. If you are a full-time employee, you may be well positioned to improve your tax position. Most employees have access to tax-free or tax-sheltered benefits. Consider the options available to you. Does your employer offer flexible spending plans? “Cafeteria” or salary reduction plans? A 401(k) plan? Refer to your employee benefits handbook or talk to your benefits manager for other benefits you may be overlooking, such as tax-free medical or nontaxable employee education benefits.

Tax Planner

To help you with your tax planning, your financialPARTNER provides the following Tax Planner worksheet and the Tax Table in your form binder. If you do not understand tax rules or are not knowledgeable in this area, consult a tax professional. Use this form to facilitate discussions with your tax advisor.
Instructions: Tax Planner

1. Complete this form, using last year’s tax return as a model for estimating income, deductions, and taxes. Update figures if your income and expenses have changed. Use last year’s tax rates if you do not have access to the most current rates.

2. Do a current-year tax calculation to estimate what your tax due or refund would be.

3. Develop tax-reduction strategies.

4. Estimate your federal and state income taxes based on the tax-reduction strategies. Enter this data in columns “Alternative #1” and “Alternative #2” to see what you would realize in potential tax savings.

5. List the tax-reduction strategies used in completing your Tax Planner in the Tax Strategy Recap section. Note which strategy refers to Alternative #1 or Alternative #2.

6. Note Nontaxable Cash Flow Savings strategies. This includes items that are tax-deductible for the employer and not taxable to you (i.e., medical insurance, subscriptions).

7. List Current-Year Taxable Income Reduction items. This would include prepayment of property taxes, funding of an IRA, etc.

8. Enter the tax savings you would realize under your alternative tax plans. This figure can be calculated by subtracting your Alternate #1 and Alternate #2 income taxes (1040 line 39) from your current tax position and entering them in the “Tax Savings Over Current Year” space.
□ To increase your charitable contributions, consider donating no-longer-needed household items to a qualified charity. A charitable tax deduction record should be signed by the recipient charity. If the total value of your property donation exceeds $500, you must provide details. If you donate property valued at over $5,000, you must obtain a written appraisal to support the deduction. In all cases, be sure to get a receipt from the charity.

□ When meeting with your tax preparer to prepare this year’s return, ask for a tax calculation for the following year. (Tax software often allows this to be done quickly.) It will give you a good picture of your next-year tax position early in the year. Ask your tax preparer how much this extra service will cost—you don’t want surprises!

□ Taxpayers who claim the Child and Dependent Care Credit will be required to identify the person or organization providing such care. This identification should include name, address, and taxpayer ID number. If the correct information is not given, the IRS may deny the credit unless the taxpayer can show that an honest attempt was made to provide this information.

□ Stay organized and keep good records. Many tax deductions are lost due to poor record keeping. Keep using your Financial Partner Personal Filing System and cash management techniques to stay organized and in control of your tax information.

Instructions: Charitable Tax Deduction Record

1. Use this form if you itemize deductions to record your various non-cash charitable gifts. If your total deduction for all noncash contributions for the year is over $500, you must complete and attach IRS Form 8283, Noncash Charitable Contributions, to your return. Taxpayers donating an item or a group of similar items valued at more than $5,000 must also complete Section B of Form 8283, which generally requires an appraisal by a qualified appraiser.
Charitable Gifts Can Come in Many Forms

When you decide the time is right to make a charitable gift(s) to your favorite nonprofit organization or cause(s), don’t assume that just writing a check is the only option. You have a wide variety of techniques and assets to use to fund charitable gifts, including the following strategies.

- 1. Outright Gifts of Cash, Securities, Real Estate, Art & Collectibles, Personal Property Gifts -
- 2. Charitable Gift Annuity -
- 3. Charitable Remainder Annuity -
- 4. Charitable Remainder Unitrust -
- 5. Charitable Lead Trusts -
- 6. Pooled Income Fund -
- 7. Private Foundation -
- 8. Community Foundation -
- 9. Life Estate -
- 10. Gift Easement -
- 11. Transfers by Will, Trust or Beneficiary Designation -
- 12. Partial Interest Donations -
- 13. Donor Advised Funds -

As tax-efficient charitable giving can get complicated very quickly; be sure to work closely with your advisors when planning charitable gifts.

Let’s Review the Essentials

Here are the essential principles for tax planning

- 1. Learn about your federal and state tax laws
- 2. Avoid unorganized finances
- 3. Use your Six-Steps to Tax Planning Planner
- 4. Practice pro-active tax planning
- 5. Start your tax planning early in the year and complete it before year-end
- 6. Seek tax advice before entering into a major transaction
- 7. Avoid procrastination
- 8. Avoid aggressively using tax-sheltered investments
- 9. Avoid Common Mistakes in dealing with Tax Planning
- 10. The planning tips and ideas covered in Chapter 9

As you can see tax planning is a lifelong process. Look at it as a family game, your “financial money game” and try to involve the entire family — grandparents, parents, and kids, and your tax advisor. Each dollar you save by using the financial PARTNER tax planning process goes directly into your pocket and can be used to fund your life’s most important financial goals.
The IRS tells us that they estimate the average time it takes to do an average 1040 tax return about 15 hours of time that includes about 4 hours to complete the forms.

If you have a business interest included within your return you can expect this to increase to 22 hours of time that includes about 5 hours to complete the forms.
CHAPTER 10
Insurance Planning

Review Your Insurance Policies

What would happen if your house burned down or was seriously damaged? If someone stole your car and demolished it? If your personal possessions were burglarized? Would you be covered if a windstorm damaged your roof? If you were sued by someone who slipped and fell on your doorstep, or you injured someone with a golf ball? What would happen to your family if you passed away?

The first principle of insurance is to protect your assets and those of your family. It is very important that you insure what you can’t afford to lose. This includes your cash flow!

Most people pay little attention to their risk exposure, unless they’ve had a personal experience that brings it to their attention. Without proper insurance coverage, the best financial plans can be ruined. Being uninsured or underinsured is one of the main causes of personal financial failure. It is very important that you evaluate your risk exposure under your current insurance coverage.

“When you have to make a choice, and you don’t make it, that is in itself a choice.”

William James
Common Mistakes to Avoid in Insurance Planning

- 1. Failure to plan
- 2. Having too little, too much, or the wrong kind of insurance
- 3. Paying too much for insurance
- 4. Not coordinating the ownership and beneficiary selections of life insurance with your estate plan
- 5. Procrastination

Two Kinds of Insurance

- **Financial Insurance**: life, health, disability, and long-term care insurance
- **Property & Casualty Insurance**: property, vehicle, liability, and business insurance

**Financial Insurance**

**Life Insurance**: The purpose of life insurance is to protect your dependents in the event that you die before accumulating a sufficient net worth to take care of them after your death. There are various types of life insurance policies marketed under different names, but generally they fall into two categories: term insurance and cash value insurance.

- **Term insurance** is the simplest type of coverage. It gives you protection for a specific period of time. If death occurs during that specific period, the face amount of the policy is paid. Once that period has ended, there are no remaining benefits. This type of policy is usually the least expensive on a year-by-year basis, with premiums gradually increasing with the insured’s age. It can be purchased as a one-year annual renewable or as a 5-, 10-, 15-, 20-, or 25-year level-term policy where your premiums stay the same for the length of the policy.

- **Cash value insurance** has a savings element built into the policy. The premiums are higher, but cash values build inside the policy. There are various investment options available to you under cash value life insurance. If your insurance needs are permanent (10 years or more), a good cash value policy could be less expensive over the long term than an annual renewable term policy. Types of cash value policies include whole life, universal, and variable life.

**Health insurance**: This provides coverage for the cost of doctors’ fees, hospitalization, medication, and other related expenses resulting from sickness or accident. Physicians’ fees and hospital costs have risen rapidly in recent years and will probably continue to do so. In the absence of insurance, a major illness or accident can quickly exhaust your resources. Medical insurance is often provided as a benefit of your employment, but if your company does not offer it, be sure to obtain your own coverage. If someone who can afford health insurance doesn’t have coverage they may have to pay a fee and have to pay for all of their health care. The fee is sometimes called the “individual responsibility payment,” “individual mandate,” or penalty.

After you have built a significant living estate and have fulfilled your financial obligation to your dependents, you may want to put your life insurance to work in other ways. You may want to pass on your entire estate by using insurance proceeds to pay for estate taxes and transfer costs instead of your beneficiaries having to liquidate other assets to pay them. You may also want to provide your survivors with a specified dollar amount or name a charity as a beneficiary for your life insurance. Consult with your financial advisor, insurance agent, or estate planner for details on such options.
There are many types of health insurance plans for those under age 65. For those age 65 and over, coverage is generally provided through:

- **Medicare** — a federal health insurance program for those age 65 or older. Medicare A: the hospital part of Medicare, covers various inpatient services. Medicare B: an optional provision providing coverage of outpatient services, prescription drugs, and other covered costs.

- **Medigap** — Medicare coverage is not comprehensive, so a variety of supplemental insurance policies are offered by private companies to provide coverage for the gap in medical expenses not covered by Medicare A and B.

- **Medicaid** — a joint federal and state program for people of any age who need assistance to pay their medical bills.

**Disability Insurance:** This insurance provides periodic payments to replace income when the insured is unable to work as a result of illness, injury, or disease. For relatively young people, the probability of partial or total disability is far greater than the probability of loss of life, which makes this form of insurance especially important to protect your income during your working years. A number of states have their own supplemental disability income programs that provide limited benefits over a short period of time. Determine how much income you would have if you became disabled tomorrow. Would it be enough?

**Long-Term Care Insurance:** This insurance provides money needed to cover the cost of long-term care. With the advancements of medicine and technology, life expectancy is increasing. For some people this is a blessing, while for others it may create serious financial problems. As people age, they are more likely to require hospital and physician care. They also become more susceptible to chronic, disabling conditions that require long-term care in a nursing home or in their own home, which is usually not covered by other insurance.

**Property & Casualty Insurance**

**Homeowner’s and Renter’s Insurance:** This insurance provides comprehensive protection for your dwelling and all its contents, including personal liability for accidents on your property. The value of your home and personal property represent a major portion of your net worth. Most people are not able to self-insure a major loss to their residence or other personal property. In addition, few are able to cover the costs of defending themselves against a lawsuit by someone hurt while on or while using their property.

**Vehicle Insurance:** This form of insurance covers vehicle liability, medical payments, property damage, and other related exposures. When you sit behind the wheel of a vehicle, you take on a major responsibility. You are liable for any error you or other family members commit causing damage to property or injury to yourself or someone else. Vehicle insurance allows you to pass on a portion of that responsibility to the insurer.

**Personal Liability Umbrella:** This insurance protects against losses above and beyond those covered by your basic homeowner’s, auto, business, and other property liability insurance. It is written in
increments of $1 million and requires minimum underlying insurance from your other casualty insurance policies. It is very important that the minimum underlying coverage be maintained so that you are not left exposed in any area. Umbrella policies are generally purchased from the company that insures either your home or your automobile.

An umbrella liability policy will provide additional coverage for you in the event that you or an immediate family member cause a death or injury to another person. It will also provide additional protection in the event someone is seriously hurt while on or using your property. An umbrella policy is relatively inexpensive, around $150 and $300 per year for $1 million in coverage. This is a small price to pay to protect your net worth.

The financial planning area of risk management and insurance can be quite confusing and very complex. A good insurance agent is worth her/his weight in gold and is a valuable advisor. There are usually two types of agents: one deals with financial insurance, the other deals with casualty insurance. It is unusual to find one insurance agent well versed in both areas.

Get a quote from your insurance agent on increasing your deductible. If you have the cash reserves, and the premium reduction is significant, consider increasing your deductible.

There are other types of insurance coverage, such as for flying, recreational vehicles, boating, etc. If you are involved with these or any other activity that could involve property damage or any other personal liability exposure, you should discuss this with your insurance agent. Have your agent explain your exposures and the cost to insure against them.

Get quotes on your various property and casualty insurance policies annually. Considerable savings may be available. You should also check with your financial insurance agent to verify the cost of these coverages on a regular basis.

Caution: If you have a health issue or a particular legal problem in your recent history (such as several speeding tickets), discuss this with your agent before making any changes to your policy coverage.

Many insurance companies are going through reorganization and consolidation, which may create concern about their stability. To get information about your current insurance company or one that you are considering, you can contact several insurance rating services, such as:


These sources may charge fees for the information, so ask first.
Going Through the Six-Steps

Insurance Planning

1. **Define Your Goals:** The big question here is, How much loss can you afford if you self-insure? Some people feel they must have everything insured in order to be able to sleep at night. Other people would not sleep at night thinking about the premiums they have to pay. Most people fit somewhere in the middle. Where do you stand?

2. **Gather & Organize Your Data:** Review and update your financial position. Review your Net Worth Statement and your Cash Flow Planner, and note what you have that is vulnerable to damage or loss. Consider these potential losses both for the assets you own and for the cash flow you generate.

   Then gather your insurance policies together. If you have completed organizing your paperwork, as discussed in Chapter 1, all of these policies will be in your Financial Organizer. If not, now would be a good time to locate them.

3. **Analyze Your Situation:** Determine your risk exposure by reviewing your existing policies.

   To help you better understand your various types of insurance and risk exposures, complete the separate Financial and Property & Casualty Insurance Summaries found at the end of this discussion. Ask your agent(s) for assistance in filling out the forms and analyzing your coverage. As you go through your policies, check to see if they adequately cover your risk exposure in that particular area. For example: Does your property insurance adequately cover the replacement value for that property? If not, adjustments should be made immediately.

4. **Develop Your Strategies:** Investigate all the options available for providing the coverage you need. Then assess them by looking at both the quality of the company and the cost of premiums.

5. **Implement Your Plan:** Select the adjustments that are needed, and make the changes immediately. Any delays here can be serious.

6. **Track & Monitor Your Progress:** Two months prior to insurance renewal dates, review your insurance coverage in light of any changes in your family situation or your financial position. If appropriate, contact your agent for additional input. Schedule this review on your Financial Planning Calendar.
Insurance Policies Summary

The Financial and Property & Casualty Insurance Summaries allow you to recap your various financial and casualty insurance policies in one central location. By completing the summaries, you will learn more about your insurance policies and the areas of your net worth that are properly insured, uninsured, or underinsured. As you become aware of uninsured or underinsured exposures, note on your Things to Do list for further research.

Instructions: Insurance Policies Summaries

1. Locate your insurance policies.
2. Complete this outline form for each one of your insurance policies. Most of this information can be obtained from the cover pages of your insurance policies. You may also want to have your insurance agent assist you with completing these outlines. Check policies both for risk exposure and coverage, as well as the financial condition of the insurance company. Next, determine if there are ways to effectively lower your premium.
3. Log the policy renewal date on your Financial Planning Calendar and make a note to review your policy two months before the actual renewal date.
4. Place your insurance policies in your Financial Organizer.
5. Store these summaries in your Financial Organizer or forms binder.
Ordinance or Law Coverage — If your property is partially damaged, you may not be able to rebuild or repair it because of a new building ordinance or code change. The cost of demolishing and rebuilding the home is not covered unless you have ordinance and law protection. This coverage is very inexpensive but needs to be added to existing policies. Talk with your agent about this coverage.

Arrange a meeting with your insurance agent to discuss your policies and determine your overall risk exposure. The policies to be reviewed may include life insurance, health insurance, disability insurance, long-term care insurance, vehicle insurance, property insurance, liability insurance, and business insurance.

Note that all insurance agents are duly licensed to service your Financial Insurance—life, health, disability, and long-term care insurance and Property & Casualty Insurance—property, vehicle, liability, and business insurance—needs.
Life Insurance Needs

For most families, the main purpose of life insurance is to make them “financially whole” in the event that one of the family’s breadwinners passes away. The goal is to provide the necessary capital to allow a surviving spouse and family to live comfortably for a certain period of time.

Determining your life insurance needs is a very personal exercise. Deciding what fixed expenses, like debts or mortgages, to pay off at death or how much income to replace and for how long is ultimately based on your values and family situation. There are no right or wrong answers to these questions.

Use this worksheet as a framework for calculating your life insurance needs.

<table>
<thead>
<tr>
<th>Life Insurance Needs Worksheet</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STEP 1</strong> Calculate how much annual income your family would require if you were to die within the time frame your income was needed.</td>
</tr>
<tr>
<td><strong>Plan A</strong></td>
</tr>
<tr>
<td>a. What is your current annual gross income? $____________</td>
</tr>
<tr>
<td>b. Multiply by: 80% (see instructions) X 80</td>
</tr>
<tr>
<td>c. Equals: Income replacement need $____________</td>
</tr>
</tbody>
</table>

| **STEP 2** Calculate the capital funds you need to produce the income replacement not provided by spouse’s work, Social Security, or other sources. |
| **Plan A** | **Plan B** |
| a. Repeat income replacement need from Step 1c $____________ | $____________ |
| b. Less: Surviving spouse’s annual income – $____________ – $____________ |
| c. Less: Annual Social Security survivors’ benefits (see Table A) – $____________ – $____________ |
| d. Less Other regular annual income sources – $____________ – $____________ |
| e. Equals: Annual income required from capital fund $____________ | $____________ |
| f. Multiply by: Table B factor reflecting number of years you want to provide income replacement X14.2 | X14.2 |
| g. Equals: Estimate of total capital fund for income replacement $____________ | $____________ |

| **STEP 3** Calculate additional capital needs you’d like to cover for your family. |
| **Plan A** | **Plan B** |
| a. Add: Pay-off mortgage & other debts + $____________ | + $____________ |
| b. Add: Emergency fund / Cash reserve + $____________ | + $____________ |
| c. Add: Estate Taxes and Costs + $____________ | + $____________ |
| d. Add: Children’s Education + $____________ | + $____________ |
| e. Add: Adjustment Period + $____________ | + $____________ |
| f. Add: Special Gifts + $____________ | + $____________ |
| g. Equals: Total Additional Capital Needs $____________ | $____________ |

| **STEP 4** Calculate the amount of assets and life insurance currently available to your family in the event of your death. |
| **Plan A** | **Plan B** |
| a. Add: Personal assets available + $____________ | + $____________ |
| b. Add: Liquid investment assets available + $____________ | + $____________ |
| c. Add: Non-liquid investment assets available + $____________ | + $____________ |
| d. Add: Total death benefit of current life insurance (Schedule 11) + $____________ | + $____________ |
| e. Equals: Total of assets and life insurance $____________ | $____________ |

| **STEP 5** Calculate the amount of additional life insurance needed. |
| **Plan A** | **Plan B** |
| a. Repeat total from step 2g $____________ | $____________ |
| b. Add: Total from step 3g $____________ | + $____________ |
| c. Less: Total from step 4e $____________ | – $____________ |
| d. Equals: Estimated additional life insurance needed $____________ | $____________ |

*Note: Social Security payments vary in amounts and lengths, depending on a number of factors. To be conservative, you may wish to reduce or exclude Social Security payments in your calculations.

Need cash in a hurry? If you have cash value life insurance, you can borrow against the cash value of your insurance from the insurance company, usually rather quickly and inexpensively.
Instructions: *Life Insurance Needs Worksheet & Tables*

1. Calculate how much annual income your family would require if you were to die today.
   a. Enter your total household current gross income; if both you and your spouse work, enter your combined income.
   b. Multiply your total household income by 80% to estimate the amount of income your family would need in the event of your death. This smaller percentage accounts for the fact that there is one less person in the household and changes in lifestyle. You may use a higher or lower percentage, if you prefer.
   c. Multiply a times b. This result is your income replacement need.

2. Calculate the capital you will need to produce income replacement not provided by spouse, Social Security, and other sources.
   a. Enter your income replacement need from Step 1c above.
   b. Enter the income your surviving spouse currently earns (or is likely to earn if he or she would return to work).
   c. Refer to Table A, which follows, to estimate the Social Security benefits your family might be entitled to, based on your age and the age of your surviving spouse and children.
   d. Enter any additional income from sources such as trusts, gifts, real estate rentals, deferred compensation, or other family members.
   e. Subtract b, c, and d from a. This now shows you the amount of income that will have to be provided by your current assets and life insurance.
   f. Enter the factor from Table B that reflects the number of years you wish to provide replacement income and your risk tolerance.

---

**Table A - Social Security Benefits**

Social Security automatically sends out statements annually to all workers age 25 and older, and provides an estimate of benefits along with a complete earnings history. Individuals may also file Form SSA-7004, Request for Earnings and Benefit Estimate Statement, by mail or request the statement online from the SSA's website. You can also estimate your Social Security benefits online at [www.ssa.gov/planners/calculators.htm](http://www.ssa.gov/planners/calculators.htm). There you will find three calculators that can estimate your potential benefit amounts using different retirement dates and different levels of potential future earnings. These calculators show retirement benefits as well as disability and survivor benefit amounts.

- Maximum retirement benefits beginning at age 66 are $32,244
- For planning purposes, the estimated Average Benefits in 2017 are:
  - Retired worker: $16,320
  - Retired worker and spouse age 62 and over $27,120
  - Widow(er) of worker: $15,600
  - Widow(er) of worker with two children: $32,340
  - Disabled worker: $14,052
  - Disabled worker, spouse, children: $23,952
Deciding on the number of years you want to replace income is perhaps the most important variable in determining the amount of life insurance you need. The more years you want to provide income, the greater your life insurance needs. Here are some guidelines:

- **0 years** — No income replacement makes sense if the surviving spouse is the primary breadwinner and will continue to have a good income.
- **2–5 years** — Minimal income replacement can give the surviving spouse a readjustment period to find a job, finish or renew an education, or get training for a new career, after which his or her earning power replaces what was lost.
- **Until youngest child reaches age 18 or 22** — Average income replacement is appropriate for families where the surviving spouse is the primary childcare provider. However, this will result in a higher insurance need.
- **Lifetime of spouse** — Maximum income replacement, in which you replace income until the surviving spouse dies, results in a large need for life insurance. This choice is for families that want the surviving spouse to have an adequate income for life.

Multiply \( e \) times \( f \) to determine the total capital needed to produce income replacement.

3. **Calculate additional capital needs you'd like to cover for your family.**

   a. Enter the amount of debt you would like your life insurance to pay off, such as your mortgage, loans, or credit card debts.
   b. Enter the amount of emergency funds or cash reserves you would like to leave your family. This is typically 3 to 6 months of living expenses.
   c. Enter an estimate of estate taxes and administration costs that you want your insurance to cover. This number is typically low if the estate is going completely to the surviving spouse. However, the services of an attorney, accountant, and other professionals may be required. A useful estimate is $10,000 for estates under $3.5 million that go directly to a spouse and there is no probate involved.
   d. Enter the amount you would like your life insurance to provide to fund your children's education. Annual college costs can range widely depending on the institution, residency, units taken,

### Table B — Capital Factors

<table>
<thead>
<tr>
<th>Years of Income</th>
<th>Conservative (5%)</th>
<th>Moderate (7%)</th>
<th>Aggressive (10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>5</td>
<td>4.8</td>
<td>4.5</td>
<td>4.2</td>
</tr>
<tr>
<td>7</td>
<td>6.6</td>
<td>6.1</td>
<td>5.5</td>
</tr>
<tr>
<td>10</td>
<td>9.2</td>
<td>8.3</td>
<td>7.2</td>
</tr>
<tr>
<td>15</td>
<td>13.3</td>
<td>11.5</td>
<td>9.4</td>
</tr>
<tr>
<td>20</td>
<td>17.2</td>
<td>14.2</td>
<td>11.0</td>
</tr>
<tr>
<td>25</td>
<td>20.7</td>
<td>16.5</td>
<td>12.2</td>
</tr>
</tbody>
</table>

### Note: From Table B, select the column that comes closest to the number of years you wish to provide income replacement for your survivors. Go down the column and select the row that fits your investment style, determined by your Risk Tolerance. The number at the intersection of the column and row is your Table B factor. This factor is a multiplier that helps to determine the capital fund required to replace the income loss of the survivor, assuming an inflation rate of 3.5%.
and regional economies. Try to estimate this entry based on the information you have at present.

e. Enter an amount for an adjustment period. This might include 3–6 months of living expenses so that your spouse does not have to work for that period of time.

f. Enter the amount of any special gifts you would like to make to charities, family members, or others.

g. Total items a through f to determine the amount of additional capital you want covered at your death.

4. Calculate the net value of assets and life insurance currently available to your family in the event of your death. This figure should account for any costs involved in liquidation (loans, commissions, etc.).

a. Enter the net personal assets from your Net Worth Statement that can be liquidated at death to provide for your family.

b. Enter the net liquid investment assets from your Net Worth Statement available at death to provide for your family.

c. Enter the net non-liquid investment assets from Net Worth Statement that could be liquidated at death to provide for your family.

d. Enter the total amount of net life insurance (less any loans) from Schedule 11, available at death to provide for your family.

e. Add a through d to determine the total amount of your current assets and life insurance benefits available at death to your family. This amount helps offset your life insurance needs.

5. Calculate the amount of additional life insurance needed.

a. Repeat the result from Step 2g – the total capital required to fund income replacement for the surviving spouse and family.

b. Repeat the result from Step 3g – the additional capital needs to be covered.

c. Repeat the result of Step 4e – the amount of assets and life insurance available at death.

d. Add a and b, then subtract c. The result is an estimate of the amount of additional life insurance you need. If this number is negative (below zero), there is no need for additional insurance. If the negative number is large, you may even have too much life insurance and should consider reducing your costs by lowering the amount of life insurance you already have in place.

This worksheet is designed as a quick “reality check” to assess your current situation. You may wish to verify your results using sophisticated online software, or visit a qualified financial advisor.
Let’s Review the Essentials

Here are the essential principles for insurance planning

1. Learn about insurance
2. Use your Six-Steps to Insurance Planning Planner
3. Prepare and annually review and update your Insurance Policies Summary
4. Be sure to coordinate the ownership and beneficiary selections of life insurance with your estate plan
5. Avoid having too little, too much, or the wrong kind of insurance and paying too much for it
6. Avoid the Common Mistakes in Insurance Planning
7. The planning tips and ideas in Chapter 10

Insurance and risk management planning is a lifelong process. Protecting what you cannot afford to lose is one of the most important steps you can take toward safeguarding the financial well-being of your family. Use the six-step insurance planning process to guide you through this vital endeavor.
Address Your Estate Plan

Everyone has an estate plan; some people just don't realize it. If you do not have a will or a trust when you die, your assets will be distributed by default through a complicated legal system called probate. The handling of your financial affairs can turn into a costly and frustrating ordeal for both your family and heirs. While you are living, develop your own estate plan for the management of your assets and your healthcare decisions should you become disabled, sick, or injured, and the management and disposition of your assets for your loved ones upon your death.

Estate planning develops a strategy, based on your goals, to transfer property and to care for your survivors upon your death and to manage your finances in the event of your disability. The implementation of an estate plan begins with the proper drafting and signing of appropriate legal documents, namely, wills, trusts, buy-sell agreements, and durable powers of attorney for financial management and advance health care directives. Estate planning also requires coordination of the way you hold title to your various assets, your beneficiary selections, and possibly the transfer of certain assets while you are still living.

Estate planning is important for everyone, regardless of the extent of your net worth. It is the only way to control the distribution and management of property in the event of your death or disability. It can also be used to minimize the time and costs involved with transferring your property. Wealthy people may use complex strategies to reduce death taxes and costs. Those who are not so wealthy may only require a simple will or trust to pass on property to their heirs and to provide care for minor children and appropriate powers of attorney. Even if a simple will is all that is required, an estate plan is an essential part of your financial planning.

“The only person who doesn't need an estate plan is one who lives forever.”

Your financial PARTNER
Common Mistakes to Avoid in Estate Planning

- 1. Lack of planning
- 2. Unorganized finances
- 3. Not having a will, trust, durable power of attorney, or advance health care directive
- 4. Having out-of-date estate planning documents
- 5. Having “do it yourself” wills and trusts / no second opinion
- 6. Not selecting backup executors, trustees, and guardians
- 7. Not coordinating your beneficiaries with your estate plan
- 8. Not coordinating your life insurance ownership with your estate plan
- 9. Not coordinating property title with your estate plan
- 10. Not enough life, disability, long-term care, and liability insurance
- 11. Not providing executors & trustees with an up-to-date location sheet
- 12. Procrastination

**IF YOU DON’T HAVE UP-TO-DATE ESTATE PLANNING DOCUMENTS**

- Here are a few problems you or your family might encounter

- 1. You can’t find funeral instructions
- 2. An extensive search for a will may be required
- 3. The appointment of an estate representative and minor child’s guardian becomes much more complicated and expensive
- 4. Wrong people may inherit
- 5. The wrong person may pay the estate tax
- 6. Money may go to children too soon
- 7. Actions in the probate estate may be delayed and much more expensive

**Estate Planning:** The process of developing appropriate strategies to accumulate, preserve, manage, and transfer assets over one’s lifetime, disability, and upon death. This is based upon your current personal values and objectives using appropriate legal documents, titling of assets, and beneficiary selections to implement them.
Common Estate Planning Terms

If you're not familiar with them take a quick pass at them now.

Administrator: The individual or organization approved by a probate court to settle the affairs of a person who died without a valid will.

Advance Health Care Directive: A legal document that gives the person(s) you select the power to make medical and health-care decisions for you in the event that you are unable to make those decisions yourself.

Beneficiary: The person named in an insurance contract, retirement plan, will, or trust agreement who will receive the right to benefits, income, or property, upon the occurrence of some event, such as a death.

Charitable ("Immortality") Trust: A trust that is set up to provide an ongoing current benefit, such as a scholarship, or to grant funds for future generations.

Charitable Lead Trust (CLT): A CLT is often viewed as the opposite of a charitable remainder trust. A donor transfers property to the lead trust, which pays a percentage of the value of the trust assets to a named charity, usually for a term of years. At the end of the trust term, the remaining assets in the trust and any growth it has realized are distributed to your heirs or the beneficiaries you elect. Although there is no income tax deduction when you create a charitable lead trust, your gift or estate tax is greatly discounted and any growth is passed to your heirs' gift and estate tax free.

Charitable Remainder Trust (CRT): A trust into which assets are contributed and which provides a donor with an income-tax deduction and a beneficiary with income over a defined period of time, with the remaining principal going to a charity at the end of the term.

Decanting: Is the process of transferring assets from one trust into another. Trust decanting allows a trustee to establish a new trust with more beneficial trust, eliminating some unfavorable elements within a previous trust.

Donor Advised Fund (DAF): A DAF is a charitable giving vehicle that's administered by a public charity created to manage charitable donations on behalf of individuals, families, or organizations.

Durable Power of Attorney for Financial Management: A legal document that gives the person(s) you select the power to manage your assets in the event that you are unable to do so. It does not cover assets that are in a trust, as these are managed by the trustee.

Estate: The total of all types of property owned and debts incurred by a person at a particular time, usually upon his or her death.

Estate Planning: The process of developing appropriate strategies to accumulate, preserve, manage, and transfer assets over one's lifetime, disability, and upon death. This is based upon your current personal values and objectives using appropriate legal documents, titling of assets, and beneficiary selections to implement them.

Estate Tax: There is an estate exclusion of $5 million indexed for inflation after 2011, per person, and a top estate tax rate set at 40%. For decedents dying in 2017 the exclusion is $5.49 million.

Executor: The individual or organization appointed in a will to administer the disposition of an estate according to the instructions set forth in the will.

Fiduciary: A person who assumes responsibility for a position of trust.

Generation-Skipping Tax (GST): A tax applied when the recipient of a gift or bequest is two or more generations younger than the giver (for example, a gift from a grandparent to a grandchild). Generation-skipping tax exemption is $5 million indexed for inflation after 2011, per person, and a GST Tax rate of 40%. For 2017 the exemption is $5.49 million.

Gift Taxes: Lifetime gifts made in excess of the annual gift tax exclusion per donee ($14,000 in 2017 subject to inflation adjustments) are subject to gift taxes. Gifts made in 2017 receive an exclusion amount of $5.49 million indexed for inflation with additional gifts taxed at a top tax rate of 40%.

Guardian of the Person: The individual appointed in a will or by a court to care for minor children or an incompetent adult.

Guardian of the Estate: The individual appointed in a will or by a court to care for the property of minor children or that of an incompetent adult.

Inheritance Tax: The state tax paid on the value of property and money received from another person at their death. Not all states have an inheritance tax.
Irrevocable Trust: A trust in which the trustor—the individual who supplies the assets used in setting up a trust—does not retain the right to revoke or amend the trust.

Life Insurance (Wealth Replacement) Trust: A trust that is usually set up as an irrevocable trust for the purpose of receiving life insurance proceeds. Properly structured, proceeds from this trust are estate tax free.

Living (Inter vivos) Trust: A trust that is created while the grantor is alive. It may be revocable or irrevocable.

Portability: Beginning for taxpayers dying after 2010 the estate tax exclusion provides for “portable” between spouses. This means that the surviving spouse’s exemption is increased by any exemption not used at the first spouse’s death. Caution: portability is not automatic; to preserve portability and make the unused deceased spouse’s exemption available to the surviving spouse, an election must be made on the estate tax return of the first spouse to die.

Power of Appointment: A power or authority, which may be conferred by one person to another to dispose of property.

Power of Attorney: A written instrument authorizing a person to act as the financial agent or attorney-in-fact in performing specific acts on behalf of another.

Probate: The legal process of administering the non-trust assets of the estate of a deceased person.

Qualified Terminal Interest Property (Q-TIP) Trust: A trust created at death by a will or living trust which provides all of the income to the surviving spouse for life. Upon that survivor’s death, assets go to beneficiaries previously designated by the deceased spouse. Properly set up, this trust avoids any estate taxes on the estate of the first spouse. However, at the surviving spouse’s death, the Q-TIP will be included within the estate of the surviving spouse. Depending on the overall size, it may be taxed as part of his or her estate.

Testamentary Trust: A trust created by a will to commence upon the death of the person who made the will (the testator).

Trust: A legal agreement designed to manage and control certain assets, held by the trustee for the benefit of others.

Trustee: The person, persons or organization appointed by the trustor to manage the assets and distributions of the trust.

Trustor / Grantor / Settlor: The individual who provides the assets used in setting up a trust.

Unified Credit: The estate and gift tax system in the United States is “unified.” When computing the estate tax that may be due upon a person’s death, the IRS takes into consideration taxable gift transfers by the decedent during his/her lifetime.

Unified Credit (By-Pass) Trust: A trust created either through one’s will or through a living trust that allows the unused portion of the unified credit to be placed in trust for a surviving spouse or other beneficiaries.

Will: A legal document through which a person directs the disposition of his or her estate upon death.

If you have a larger estate or complex family situation here are some advanced estate planning strategies and tools to explore and discuss with your financial advisors.

- Family gifts, and the use of fractional gifts as a discounted interest
- Family partnerships and private annuities
- Special use valuations
- Life insurance and a life Insurance trust / wealth replacement trust
- Charitable gifts
- Private and public foundations and donor advised funds
- Charitable remainder trusts and charitable lead trusts
- Asset protection trusts
- Dynasty trusts
Learning the Basics—An Estate Planning Overview

If you’re like many Americans, you’re experiencing or have experienced a significant change in your financial position, your housing and even your lifestyle. In estate planning, even during normal times, ordinary life changes can have a material affect on your family estate plans. Unfortunately, you can’t just talk about estate planning because verbal agreements aren’t legal. You’ll need to have your attorney put them into writing.

Here’s the basics to estate planning with some suggestions for how to save time and money on legal fees and taxes and to get your estate planning house in order, and keep it there over your lifetime.

Start with Your Personal Goals

Identify beneficiaries you want to inherit something from you when you die. Specify how much, what percentage or which specific assets go to each person or charity. Take note of the special needs of your beneficiaries, such as a disability preventing work or an inability to manage money, and identify backup beneficiaries in case your first choices do not survive you.

If you don’t have strong feelings about individuals, consider selecting a favorite charity or “cause” to be your primary or secondary beneficiary.

Also consider the timing for distributions to designated recipients. Some beneficiaries can handle a large, lump-sum distribution. Others, such as children, benefit from distributions that are spread out over time.

Identify guardians to raise your minor children should both you and your spouse die or become incapacitated. Also, select guardians of the property to handle your children’s inherited assets. Always identify alternates and backups.

Identify executor(s) and trustee(s) to carry out your wishes after your death. You’ll need an executor to administer your will, and if you have trusts, you’ll also need to name a trustee or trustees to manage them.

For each position, come up with several choices because you don’t know who will be willing and able to serve when the time comes. Consider selecting two or, in larger estates, three trustees as a system of checks and balances.

Identify other decision makers to carry out your health and money management choices if you’re incapacitated.

For special needs and concerns, list any sensitive family circumstances or concerns you have that may affect your planning, such as prior marriages, ill parents, troubled kids.

Gather Your Personal & Financial Information

- List full names and addresses for you and your family members
- List your current advisors
- List your assets and liabilities at their current values
- Identify how you hold title to each asset
- Gather retirement plan and life insurance beneficiary statements
- Summarize how you make and spend your money
- Gather employment benefits statements, life insurance policies, long-term care policies, deeds to real property, partnership and business agreements and the last two years of income tax returns
- Include divorce papers, premarital agreements, existing estate plan documents and any other contractual documents
- List any questions, concerns and ideas
Seek Out The Right Attorney

Identify several attorneys who specialize in estate planning by getting referrals from a AEP®, CPA, CPA/PFS, CFP®, CLU®, ChFC®, CTFA, trust officer, banker, financial advisor, private fiduciary, insurance agent, or friends. Or you can contact the National Association of Estate Planners and Councils for an attorney near you at www.naepc.org.

Call the attorneys and ask how many wills and trusts they have prepared this year and in the last 10 years. Ask whether they also handle estate administration after someone dies to see if they’re familiar with issues following a death.

Ask how they charge. Estate-planning attorneys are specialists, and some charge hourly rates from $100 to over $500 per hour while others charge a flat fee for document preparation. Ask if they will provide an introductory meeting with you at no charge. Make sure you are comfortable with your attorney as a person, as he or she should be asking you thought-provoking questions and you’ll need to be comfortable discussing them with him or her.

Make the Most of Your First Meeting

Bring your notes and the information from above when you meet with an attorney. This could save one to five hours (or more) of billable time. Discuss your overall goals and see how they can be met.

Ask the attorney about the main documents that need to be prepared:

- Will
- Living Trust
- Durable Power of Attorney for Financial Management
- Advance Health Care Directive

Before leaving the attorney’s office, if you are satisfied that you can relate to him or her, request an engagement letter quoting the fee for services and a brief summary of your estate plan—written in terms you can understand—to serve as a record of the decisions made. Confirm that you’re taking advantage of all tax-saving possibilities and, when desirable, avoiding probate.

Review & Sign Documents

After you have retained your attorney and he or she has drafted the initial set of your documents for review and approval, note questions and changes in red ink in the margins. Be specific. If you have an estate worth greater than $1 million or a complex family situation, have a copy of your documents sent to another financial professional such as your Accredited Estate Planner® (AEP®), Certified Financial Planner® (CFP®), Certified Public Accountant (CPA), Certified Public Accountant / Personal Financial Specialist (CPA/PFS), Chartered Life Underwriter® (CLU®), Chartered Financial Consultant® (ChFC®), Certified Trust and Financial Advisor (CTFA), trust officer, financial advisors, private fiduciary, insurance agent, or any other appropriate qualified estate planning professional for their input. Discuss questions and possible changes with your attorney.

Take Care of Title & Beneficiary Designations

Have your attorney make sure that titles on all your assets, and your beneficiary designations such as life insurance and retirement plans are coordinated with your will and living trust.

Estate Planning Is Forever

Call your attorney about updating your plan every three years or anytime you have major changes in your personal situation due to births, deaths, marriage or divorce, as well as significant increases or decreases in the size of your estate.

Estate plan documents are technical and very dry; they do not communicate personal feelings. Therefore consider drafting a personal letter to your spouse and family expressing your final thoughts and feelings to them.

It’s also important to keep your key financial paperwork readily accessible for those who will be dealing with your affairs if you become incapacitated or when you die.
New Estate & Gift Tax Development

As we start 2017 with a new presidental office keep your eyes open for some potentially larger estate and gift tax law changes. On December 18, 2015 President Obama signed into law The Path Act of 2015. This new law makes many tax brakes permanent while enhancing others. This includes making permanent the IRA charitable rollover provision that originally began in 2006; rollovers are free of federal income tax up to $100,000 for individuals are 70 ½ and older and they can qualify toward for the donor’s ‘required minimum distribution.’

On January 2, 2013 President Obama signed the American Taxpayer Relief Act (ATRA) into law. This came the day after the Senate and House of Representatives passed the bill. ATRA makes permanent many tax cuts enacted in 2001 and 2003, and makes a permanent patch on the alternative minimum tax and extends many individual and business tax provisions.

Permanent Effect of Estate, Gift, and GST Taxes

Many of the temporary provisions from prior tax acts were made permanent ending much confusion and speculation.

**Federal Estate, Gift and GST Taxes:** The estate tax, gift tax and generation skipping tax exclusion amounts are all set at $5 million and indexed for inflation after 2011. For 2017 the exemption amount is $5.49 million. The gift tax exclusion per donee for 2016 is $14,000.

**The top estate, gift, and GST:** tax rate is increased from 35% to 40%.

**Portability**: Beginning for taxpayers dying after Dec. 31, 2010 the estate tax exclusion becomes “portable” between spouses. This means that the surviving spouse’s exemption is increased by any exemption not used at the first spouse’s death. However, this is not automatic; it must elected by timely filing a 706 estate tax return.

**Carryover Basis**: For most capital assets transferred at the time of death the beneficiary receives a “stepped up” basis to its fair market value at the date of death.

Check with your financial advisors for updated estate & gift tax information.
Estate Planning

1. Define Your Goals: What do you want to happen to your assets in the event of death or disability? Have you determined the disposition of your estate? If your beneficiaries predecease you, who are your alternate selections? Do you have any charitable causes that are important to you? How will your assets be distributed, i.e., outright or as an income interest? When will these distributions take place — at your death or over time after your death?

- Decisions on the distribution of your assets/estate should take into account the size of the estate, the ages and abilities of the beneficiaries, and your personal desires. For example, a distribution to children over time might be 10% of your estate upon death or at age 18, 25% at age 21, 50% at age 24 or completion of college, and the balance at age 30.

- Many people like to leave a gift to charity in their estate plan because they care about causes, that are important in their lives. Are there any causes you would support in this way?

- The next issue to be dealt with is choosing your appointments. Who will be your executor and, if applicable, trustee and guardians? It is advisable to list at least a first and second alternate for each of your appointments, in case your first choice is unwilling or unable to serve.

- If you have children who are minors, the appointment of a guardian of the person and estate is probably the most important decision you will make. At the court’s approval, this person, or persons, will raise your children in a similar manner as you control the finance and are not subject to probate. Consider appointing a family member and their spouse or another close couple who would care for your children.

- Do you have pets? Is so who should take care of them?

- You may want to consider listing multiple executors, trustees, and guardians to serve together in handling the details of your estate. This can provide a system of checks and balances for the appointees and help them avoid oversights or misappropriations. Consider appointing family members, friends, professionals, advisors, or trust companies for this position. These appointees are responsible for managing your money for your beneficiaries. There is risk here — if these people disagree and have problems, they can each be represented in court by counsel that is paid for by the estate, so be very careful in making your selections.
Living trusts are a popular estate planning tool. Assets held within a living trust are not probated, and can save time and administrative costs in settling an estate. Be aware that having a living trust does not eliminate the need for trust administration either at the first or second spouse's death. The administration process is a great deal less formal because there are fewer court requirements. However, to get the benefits of the trust, certain details must be attended to, and this is the job of the trustee. For example, leaving a trust for the surviving spouse requires that the trust be funded properly at the first death and in a timely manner.

If you already have a trust, or you are considering establishing one, make sure that you have informed advisors and reliable trustees. At the time of your death, the trustees must contact the advisors immediately and determine what needs to be done and who is responsible for doing it. Estate and trust administration is complicated and requires special expertise.

Is estate privacy an issue for you? Do you want your estate to be public record upon your death? Do you have any special gifts you want made to charity? Do you want an elderly parent or friend to be financially cared for? These should be noted and taken care of in your estate plan.

2. Gather & Organize Your Data:
   There are three basic tasks to be accomplished here.
   - Review and update your financial position.
   - Review how you hold title to your assets. Is it consistent with your estate plan? If changes are needed, make a note on your Things to Do list.
   - Review your insurance and retirement plan beneficiaries. If changes are in order, note them on your Things To Do list.
   - Did you know that how you hold title to assets has a higher legal priority than your will? For example, if you and your best friend held title to an investment club account as joint tenants and one of you died, all of the property for your children would be transferred to the surviving joint tenant even though you had willed your interest to your spouse.

3. Analyze Your Situation: Start by determining your net worth if you were to die today. This can be done by totaling your current assets and subtracting your current liabilities, and adding the value of any life insurance you own.
   - If you are married and your combined estate, including life insurance, is under $10.9 million ($5.45 million if single) and you both pass before December 31, 2016 you can arrange your affairs so there are no federal estate taxes. These amounts are indexed for inflation.
   - If you have a larger estate, or complex assets or family situation explore and discuss with your financial advisors advanced estate planning tools and strategies.

Try sketching a picture or flowchart of your existing estate plan. When you die, how will your assets be distributed under your current plan? Is this what you want? Review your appointments. Have you picked the right people for the job?
   - Executor
   - Guardian of the Person/of the Property
   - Trustee
   - Power of Attorney — Financial Management
   - Advance Health Care Directive

4. Develop Your Strategies: With the assistance of your estate planning attorney and financial advisor, identify the legal documents that need to be drawn up or adjustments that must be made to existing documents, and determine any other actions needed for your wishes to be known and carried out.
5. Depending on your estate planning goals and the size and makeup of your estate, your basic estate plan may require the following documents:

- **Will** – With provisions for distribution of your belongings and pets, possibly a testamentary trust to reduce estate taxes or to protect your beneficiaries with a staggered payout; Executor appointment and guardian appointments to raise minor children, and possibly someone different to manage their assets.

- **Living Trust** – If your situation has some special circumstances or complexities.

- **Power of Attorney for Financial Management**

- **Advance Health Care Directive (Power of Attorney for Health Care)**

To solidify your family estate plans, meet with your spouse or life partner and your estate planning attorney or estate planner to address the particular estate planning documents, techniques, and strategies needed to implement your goals and wishes.

If you have a larger or complex estate or family situation discuss and explore advanced estate planning strategies and tools with your financial advisors.

6. **Implement Your Plan**: Do what needs to be done, such as establish new wills, trusts, advance health care directives and powers of attorney; change alternate designated beneficiaries of retirement plans; and change life insurance policies to trusts. Though estate planning can be done with various financial professionals, the drafting of your legal estate planning documents must be done by a knowledgeable estate planning attorney. Use your Things to Do list to check your progress.

7. **Track & Monitor Your Progress**: Check your estate plan annually or any time there are significant changes in your family situation or net worth. Use your Financial Planning Calendar to schedule your next review.

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**Estate Plan Goals & Documents Outline**

The following forms were developed to help you organize and create an outline of the important parts of your estate plan. Completing the **Estate Plan Goals Outline** and the **Estate Plan Documents Outline** will help you better understand your existing situation versus your estate planning goals.

After you have put your estate plan together, you can use these forms to outline your current estate plan. Each year thereafter, establish a set date to review you estate plan goals and update your forms.
Instructions: Estate Planning Goals & Documents Outline

1. **Gather your estate plan documents.** If you’ve completed organizing your financial documents as outlined in Step 1, everything you need should be in your **Financial Organizer**.

2. **In your Estate Plan Goals Outline form,** note your appointments and asset distribution and the management plans for your will, trust(s), power of attorney, and advance health care directive. If you have these existing estate plan documents, outline them in the Estate Plan Documents Outline form; if not, ignore this form.

3. **File this form in your Financial Organizer or forms binder.**

4. **After completing the form(s), if your Estate Plan Goals don’t match your Estate Plan Documents Outline, contact your estate planning attorney or find a qualified estate planning attorney to review this estate planning package with you.** If your situation is complex, or if you have a net worth over $1 million, consider retaining a financial advisor / estate planner to work with you and your attorney. This professional should have a good reputation for estate planning in your community and be someone who is knowledgeable of the existing laws and estate planning strategies such as an Accredited Estate Planner® (AEP®), and someone to whom you are comfortable with.

5. **Have your attorney (and estate planner, if appropriate) review the above information and suggest alternative strategies for reaching your goals.** Discuss the advantages and disadvantages of living trusts over testamentary trusts, outright distribution versus distributions over time, and the need for life insurance, disability insurance, and long-term care insurance. Go over cost-saving techniques, such as ways of holding title to your various properties and coordinating your ownership and beneficiary selections for insurance and retirement plans. Review the value of making living gifts versus testamentary dispositions, irrevocable life insurance trusts, charitable remainder trusts, charitable lead trusts, and gifts, along with any other estate planning techniques that might be applicable to your situation.

6. **Each year, establish a set date to review your estate plan goals and update your forms.** An ideal time to do this is after you file your income tax return or during **National Estate Planning Awareness Month/Week,** the third week in October.

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**Finishing Touches** - After proper estate plan documents are drafted, reviewed, adjusted and signed, it’s important that you:

- Place your estate plan documents in a financial organizer & store in a fireproof place
- Coordinate title of your property with your estate plan
- Review and update your primary and alternate beneficiaries for life insurance and your retirement plans
- Review your insurance needs; acquire or drop insurance as needed
- Annually prepare a list of assets & liabilities and make copies of year-end statements and place them with your estate plan documents
- Complete estate planning location sheet for executor/trustee
- Address concerns about pets if not addressed in the will
- Write a final letter to loved ones
- Consider creating a quality of life statement to accompany your Advance Healthcare Directive
- Consider a family office annual meeting
- Consider setting up a Donor Advised Fund
- Annually review your estate plan documents to make sure they continue to meet your goals and needs.
Estate Planning Location Sheet

Your financialPARTNER provides you with an Estate Planning Location Sheet to help you complete your estate planning. This form indicates where you keep your important financial information, including your Financial Organizer. Make sure you give a completed copy of this form to your executor and family members. In the event of serious illness or death, the Location Sheet can save everyone involved much time and money.

Instructions: Estate Planning Location Sheet

1. Complete the location sheet and make a copy for your executor or a close family member.
2. File this form in your Financial Organizer or forms binder.
3. Review annually and update as necessary.

- Wills and trusts are usually very impersonal. You may also wish to write a letter to your spouse, children, and loved ones expressing your farewell thoughts.
- If your parents or children have not discussed their estate plans with you, it may be a good idea to copy the Estate Planning Location Sheet form and ask them to complete it for themselves.
**ESTATE PLANNING PACKAGE FOR YOUR ADVISOR**

Prepare an estate planning package prior to meeting with your financial advisor or attorney. This package should consist of copies of the following information from your *Financial Organizer* and *financialPARTNER* forms:

- **GENERAL INFORMATION**
  - Personal Fact Sheets: Part I, Chapter 1/Form GO5
  - Family Tree: Part 1, Chapter 1/Form GO12
  - Financial Advisors Fact Sheets: Part I, Chapter 1/Form GO10

- **FINANCIAL POSITION**
  - Net Worth Statement: Part I, Chapter 2/Form FP0
  - Retirement Plans: Part I, Chapter 2/Form FP5
  - Cash Flow Planner: Part I, Chapter 3/CF1
  - Employment Benefits Summary: Part I, Chapter 4/EB1

- **INSURANCE**
  - Life Insurance: Part I, Chapter 2/Form FP11

- **ESTATE PLAN**
  - Estate Plan Goals Outline: Part II, Chapter 11, Form EP1
  - Estate Plan Documents Outline: Part II, Chapter 11/Form EP2

- **OTHER IMPORTANT ITEMS**
  - Will and Trust Documents
  - Property Agreements
  - Powers of Attorney
  - Advance Health Care Directive
  - Deeds to Real Property
  - Partnership Agreements
  - Buy/Sell Agreements
  - Retirement Plan(s) and Beneficiaries Statement(s)
  - Employee Benefits Package
  - Divorce and or Property Settlement Agreements
  - List of Your Questions, Concerns, and Ideas
  - Two Years of Income Tax Returns

By providing your advisors with this information, you could save one to five hours (or more) of their billable time. At $150 to $450 per hour, this could be a significant savings!
Let’s Review the Essentials

Here are the essential principles for estate planning

- 1. Learn about estate planning
- 2. Use the Six-Steps to A Successful Estate Planning Plan process
- 3. Have drafted and keep your estate planning documents current
- 4. Summarized your estate planning documents and review annually
- 5. Keep your beneficiary selection for your life insurance and retirement plans are current
- 6. Keep your title to your various assets current with your estate plan documents
- 7. Annually review your estate planning location sheet and if necessary update and provide a copy to your executor and attorney.
- 8. Annually copy year-end statements for financial accounts and loans, and place them with your estate plan documents
- 9. Annually inventory assets and liabilities and place it with your estate planning documents.
- 10. As your estate grows near or beyond the federal estate tax exclusion explore advanced estate planning techniques and tools
- 11. Talk with family about your estate and financial planning
- 12. Avoid Common Mistakes in Estate Planning
- 13. Develop your own personal philanthropy
- 14. The planning tips and ideas covered in Chapter 11

Estate planning is a lifelong process. It is also a very valuable and loving gift to give your family and loved ones.
You've now completed each of the major areas of your comprehensive financial planning.

1. Establishing Your Goals
2. Financial Independence / Retirement Planning
3. Major Expenditures
4. Investments
5. Taxes
6. Insurance
7. Estate Planning

The following summarizes what you have accomplished and provides you with an overview of the Financial Planning Steps, Common Mistakes to Avoid, and the Essential Principles to Smart Personal Financial Management.

These tools provide you with a visual reference point over the years, to see how you're progressing and to assist you with your future financial planning.
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<tbody>
<tr>
<td><strong>1. Define Goals</strong></td>
<td>□ When would you like to be financially independent or retire? □ How much money will be needed each year? □ Where and how will you live? □ How long should your money last?</td>
<td>□ What do you want? □ How much does it cost? □ Do you wish to make charitable contributions to any organizations?</td>
<td>□ What are your financial goals? □ How much risk are you willing to assume? □ What is the target rate of return needed from your investments to reach your goals?</td>
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<tr>
<td><strong>3. Analyze Situation</strong></td>
<td>□ Prepare financial calculation. Project the future value of your income needs, income sources, investment assets, and savings to the targeted time of your FIR. What do they look like? □ Compare your goals to projected situation. □ Adjust the above variables until your projects meet your goals.</td>
<td>□ Prepare financial calculation. □ Do you really need it? □ Budget — Does it support this expenditure now or in the future? □ Can you delay the purchase? □ Can you buy it for less? □ Could you finance it? □ Should you start a savings plan for this item?</td>
<td>□ Are your assets allocated properly for you? □ Are your investments generating appropriate returns for you? □ Do your return expectations match your risk tolerance? □ What is a reasonable target rate of return for you? □ Do you need the advice of a professional?</td>
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<tr>
<td><strong>4. Develop Strategies</strong></td>
<td>□ Put more money into your 401(k) plan. □ Generate higher returns. □ Delay the time for FIR. □ Lower income needs. □ Outline investment plans.</td>
<td>□ Identify where the funds should come from. □ Outline investment plans.</td>
<td>□ Identify investment alternatives and techniques. □ Seek assistance from financial advisors.</td>
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<tr>
<td><strong>5. Implement Plan</strong></td>
<td>□ Identify what needs to be done, and take action.</td>
<td>□ Identify what needs to be done, and take action.</td>
<td>□ Identify what needs to be done, and take action.</td>
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<tr>
<td><strong>6. Track &amp; Monitor Progress</strong></td>
<td>□ Annually</td>
<td>□ Annually</td>
<td>□ Quarterly or Annually</td>
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## Overview of the financialPARTNER Financial Planning Steps™

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<th><strong>Tax Planning</strong></th>
<th><strong>Insurance Planning</strong></th>
<th><strong>Estate Planning</strong></th>
<th><strong>Financial Areas</strong></th>
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<tr>
<td>□ Are you using all the tax strategies to pay less tax?</td>
<td>□ How much can you afford?</td>
<td>□ What do you want to happen to your assets in the event of death of disability?</td>
<td>1. Define Goals</td>
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<td>□ Are you concerned about being audited?</td>
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<td>□ Do you wish your estate to provide charitable contributions to any organizations?</td>
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<td>□ Outline taxable income and deductible expenses.</td>
<td>□ Review and update your financial position.</td>
<td>□ Review and update your financial position.</td>
<td>2. Gather &amp; Organize Data</td>
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<td>□ Gather your insurance policies.</td>
<td>□ Note how you hold title to property.</td>
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<td></td>
<td>□ Review and update your financial position.</td>
<td>□ Note insurance and retirement plan beneficiaries.</td>
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<td>□ If you are paying more than your fair share, why?</td>
<td>□ Review insurance policies:</td>
<td>□ Be sure you fully understand your title to property holdings.</td>
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<td>□ Meet with your tax advisor.</td>
<td>□ Life (perform needs analysis)</td>
<td>□ Review your appointments. Are they best suited for the job?</td>
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<td>□ Health</td>
<td>□ Executor</td>
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<td>□ Disability (perform needs analysis)</td>
<td>□ Guardians of the Person/Property</td>
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<td>□ Long-term care</td>
<td>□ Trustee</td>
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<td>□ Audit your Social Security account</td>
<td>□ Power of Attorney/Health Care Directive</td>
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<td>□ Vehicle</td>
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<td>□ Property</td>
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<td>□ Liability</td>
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<td>□ Umbrella policy</td>
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<td>□ Meet with your insurance agent(s).</td>
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<td>□ Identify tax-reduction strategies.</td>
<td>□ Adjust insurance policies.</td>
<td>□ Identify legal documents needed or adjustments to existing documents:</td>
<td>4. Develop Strategies</td>
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<td>□ Shop for better coverage.</td>
<td>□ Will</td>
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<td>□ Trust(s)</td>
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<td>□ Power of Attorney</td>
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<td>□ Advance Health Care Directive</td>
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<td></td>
<td></td>
<td>□ Identify cost-reduction techniques.</td>
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<td>□ Identify what needs to be done, and take action.</td>
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<td>5. Implement Plan</td>
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<td>□ Quarterly or Annually</td>
<td>□ Two months prior to policy renewal date</td>
<td>□ Annually or after a change in your personal situation</td>
<td>6. Track &amp; Monitor Progress</td>
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## Common Mistakes to Avoid

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<td>1. Being unorganized</td>
<td>1. Not regularly preparing and analyzing a list of what you own and owe</td>
<td>1. Spending more than you make</td>
<td>1. Not understanding your benefits and their tax treatment</td>
<td>1. Failing to set personal and financial goals</td>
<td>1. Failing to plan</td>
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<td>3. Not keeping your primary documents in a central location</td>
<td>3. Increasing debt by overspending</td>
<td>3. Not systematically tracking your income and expenditures</td>
<td>3. Not keeping your primary and secondary beneficiary selections current</td>
<td>3. Not running your numbers to learn what income you’ll need at your FIR and how much capital you’ll need to accumulate</td>
<td>3. Not starting a savings and investment plan early</td>
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<td>4. Not keeping your data in order so someone else can locate important information when you get sick or pass</td>
<td>4. Incur high interest debt, especially debt that cannot be repaid immediately</td>
<td>4. Not using sound cash flow management techniques</td>
<td>4. Not managing your retirement and deferred compensations plans</td>
<td>4. Not investing prudently</td>
<td>4. Not counting on the equity of your home to finance your retirement</td>
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<td>5. Not using financial advisors properly</td>
<td>5. Not keeping the title to your assets current with your estate and financial plans</td>
<td>5. Not resisting impulse spending</td>
<td>5. Not having a sufficient emergency cash reserve and back up line of credit</td>
<td>5. Not assuming an inheritance will get you through your later years</td>
<td>5. Not assuming inflation when estimating future living expenses</td>
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<td>8. Procrastination</td>
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<td>11. Procrastination</td>
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# COMMON MISTAKES TO AVOID

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<tr>
<td>1. Failure to plan</td>
<td>1. Unorganized finances</td>
<td>1. Unorganized finances</td>
<td>1. Failure to plan</td>
<td>1. Lack of planning</td>
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<tr>
<td>2. Living day to day with no specific goals</td>
<td>2. Investing without clearly defined objectives</td>
<td>2. No pro-active tax planning</td>
<td>2. Having too little, too much, or the wrong kind of insurance</td>
<td>2. Unorganized finances</td>
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<td>3. Impulse buying based on peer or marketing pressure</td>
<td>3. Not understanding your current or potential investments</td>
<td>3. Not taking advantage of available deductions</td>
<td>3. Not having a will, trust, durable power of attorney, or advance health care directive</td>
<td>3. Not having a will, trust, durable power of attorney, or advance health care directive</td>
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<td>5. Lack of product research before making a purchase</td>
<td>5. Improper asset allocation</td>
<td>5. Failing to take advantage of salary reduction options such as a 401(k) plan</td>
<td>5. Having “do it yourself” wills and trusts / no second opinion</td>
<td>5. Improper asset allocation</td>
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<td>11. Not providing executors &amp; trustees with an up-to-date location sheet</td>
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<td>12. Procrastination</td>
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# The Essential Principles of Smart Personal Financial Management™

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<tr>
<td>1. Keep only one Things to Do List</td>
<td>1. Understand what you own and owe</td>
<td>1. Identify your income sources and spending habits</td>
<td>1. Annually review Employment Benefits</td>
<td>1. Define what’s really important to you</td>
<td>1. Learn about financial independence / retirement planning</td>
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<td>2. Organize and file your Primary Documents</td>
<td>2. Annually compile a complete inventory of your assets and liabilities</td>
<td>2. Learn cash management techniques to live within your means</td>
<td>2. Learn about the tax treatment of your employment benefits</td>
<td>2. Regularly review and update what matters most to you personally and financially</td>
<td>2. Understand the power of compounding and time value of money</td>
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<td>3. Keep your Personal Filing System current</td>
<td>3. Annually compare your net worth statement with last years and evaluate your progress</td>
<td>3. Develop a cash flow plan with your partner</td>
<td>3. Verify the beneficiary selections on your group life insurance and retirement plans</td>
<td>3. Run your numbers to learn what income you’ll need at your FIR and how much capital you’ll need to accumulate</td>
<td>3. Use your Six Steps to Financial Independence / Retirement Planning Planner</td>
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<td>4. Keep a Financial Planning Calendar</td>
<td>4. Annually check property titles and beneficiary selections to make sure they meet your estate planning wishes</td>
<td>4. Build an appropriate cash reserve and a backup line of credit</td>
<td>4. Consider your health insurance options</td>
<td>4. Start your savings / investing plans as soon as possible, and encourage and help your children and grandchildren to do the same</td>
<td>4. Annually update and review your financial independence / retirement savings progress</td>
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<td>5. Keep your Personal and Family Fact Sheets current</td>
<td>5. Build an appropriate cash reserve with a backup line of credit</td>
<td>5. Control impulse spending</td>
<td>5. Annually review your retirement and tax-deferred compensation plans to make sure they are managed properly</td>
<td>5. Avoid the Common Mistakes in dealing with financial independence / retirement planning</td>
<td>5. Avoid high interest debt</td>
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<td>6. Select and use advisors wisely; get a second opinion on important transactions</td>
<td>6. Avoid incurring debt by overspending</td>
<td>6. Manage your cash flow</td>
<td>6. The planning tips and ideas covered in Chapter 4</td>
<td>6. The planning tips and ideas covered in Chapter 4</td>
<td>6. The planning tips and ideas covered in Chapter 5</td>
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<td>8. The planning tips and ideas covered in Chapter 1</td>
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<td>1. Lean about major expenditures</td>
<td>1. Learn about investments</td>
<td>1. Learn about your federal and state tax laws</td>
<td>1. Learn about insurance</td>
<td>1. Learn about estate planning</td>
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<td>2. Begin prioritizing your planned major expenditures</td>
<td>2. Determine your and your spouse/partner’s risk tolerance</td>
<td>2. Avoid unorganized finances</td>
<td>2. Use your Six-Steps to Insurance Planning Planner</td>
<td>2. Use the Six-Steps to A Successful Estate Planning Plan process</td>
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<tr>
<td>4. Avoid the Common Mistakes in dealing with major expenditures</td>
<td>4. Use your Six-Steps to Investment Planning Planner</td>
<td>4. Practice pro-active tax planning</td>
<td>4. Be sure to coordinate the ownership and beneficiary selections of life insurance with your estate plan</td>
<td>4. Summarized your estate planning documents and review them annually</td>
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<td>5. The planning tips and ideas covered in Chapter 7</td>
<td>5. Annually review and update your Investment Policy Statement &amp; Plan</td>
<td>5. Start your tax planning early in the year and complete it before year-end</td>
<td>5. Avoid having too little, too much, or the wrong kind of insurance and paying too much for it</td>
<td>5. Keep beneficiary selection for your life insurance and retirement plans current</td>
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<td>6. Properly asset allocate your investments</td>
<td>6. Seek tax advice before entering into a major transaction</td>
<td>6. Avoid the Common Mistakes in Insurance Planning</td>
<td>6. Keep title to your various assets current with your estate plan documents</td>
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<td>7. Have sufficient investment diversification</td>
<td>7. Avoid procrastination</td>
<td>7. The planning tips and ideas covered in Chapter 9</td>
<td>7. Annually review your estate planning location sheet. If necessary update and provide a copy to your executor &amp; attorney.</td>
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<td>8. Avoid being sold investments instead of finding them</td>
<td>8. Avoid aggressively using tax-sheltered investments</td>
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<td>8. Annually copy year-end statements for financial accounts and loans, and place them with your estate plan documents</td>
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<td>9. Use investment advisors wisely; get a second opinion when making a major investment</td>
<td>9. Avoid Common Mistakes in dealing with Tax Planning</td>
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<td>9. Annually inventory your assets and liabilities and place it with your estate planning documents.</td>
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<td>10. Avoid procrastination</td>
<td>10. The planning tips and ideas covered in Chapter 9</td>
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<td>10. As your estate grows near or beyond the federal estate tax exclusion explore advanced estate planning techniques &amp; tools</td>
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<td>11. Avoid the Common Mistakes in Investment Planning</td>
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<td>11. Talk with family about your estate and financial planning</td>
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<td>12. The planning tips and ideas covered in Chapter 8</td>
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<td>12. Avoid Common Mistakes in Estate Planning</td>
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<td>13. Develop your own personal philanthropy</td>
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<td>14. The planning tips and ideas covered in Chapter 11</td>
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Celebrate Your Accomplishments

Congratulations! You are now in control and prepared to manage your finances. No matter what your financial condition is today, you can improve your future if you continue taking appropriate action.

Your financial PARTNER is here to guide you and keep you in control of your finances. By working with your financial PARTNER, you have learned a complete personal financial management system — a clear, step-by-step system designed to bring all the essential principles of smart financial management into action.

You now have coordinated all the major components of your comprehensive personal financial management system.

☐ Keep an updated Things To Do list
☐ Organize your paperwork
☐ Keep a Financial Planning Calendar for action dates
☐ Get an accurate picture of your net worth
☐ Use a workable cash flow management system
☐ Make the most of your employment benefits
☐ Save money with cost-cutting and money-making strategies

☐ Understand your goals and the financial planning processes
☐ Begin investing for Financial Independence & Retirement (FIR) and for major expenditures
☐ Implement your tax-reduction plan
☐ Purchase only the insurance you and your family need
☐ Create or update your estate plan
☐ Track and monitor your financial plans

Financial planning is a lifelong process. It can be easy and very rewarding once you understand the process and are no longer intimidated. Your financial PARTNER is here to coach and support you every step of the way.

To find out more about your financial PARTNER tools and services, be sure to complete your Registration Form at the beginning of the guidebook and return it to us, and visit us at


Best wishes and to your good fortune,

financial PARTNER
Glossary
401(k): An employer-sponsored retirement plan that permits employees to divert a pretax percentage of their gross pay into the plan and avoid current taxes on that income. Investment earnings from this plan accumulate tax free until they are withdrawn. (The name comes from the actual federal tax code.)

AEP®: Accredited Estate Planner® designation is awarded by the National Association of Estate Planners & Councils to recognized estate planning professionals who meet special requirements of education, experience, knowledge, professional reputation, and character. 888.226.2224, www.naepc.org/search_councils.web

Accidental Death & Dismemberment Insurance: A policy that pays a benefit if the insured dies by other than natural causes. It also pays a benefit if the insured loses sight, hearing, speech, or the use of a limb from an accident.

Accumulated Annuity: An annuity contract that provides payments to be postponed until a specified period of time has elapsed — for example, 10 years or when the annuitant reaches a certain age. The annuity can be purchased in one lump sum or with periodic (after-tax) payments until the withdrawing process begins.

Adjusted Gross Income: The amount remaining after certain adjustments are subtracted from a taxpayer's gross income.

Administrator: The individual or organization approved by a probate court to settle the affairs of the person dying without a valid will.

Advance Health Care Directive: A legal document that gives the person(s) you select the power to make medical and health-care decisions for you in the event that you are unable to make those decisions yourself.

The American Opportunity Tax Credit (TAOTC): provides up to $2,500 in tax credits for people pursuing undergraduate education. It replaces and expands on the former Hope Credit. The TAOTC is scheduled to be effective for the years 2009 through 2017 only. This credit is worth up to $2,500 on the first $4,000 of qualifying educational expenses, which include course materials as well as tuition. TAOTC applies to all four years of undergraduate college education. The credit is gradually reduced (or “phased out”) for income from $80,000 to $90,000 (or $160,000 to $180,000 for joint filers). Up to 40% of the credit is refundable, meaning that it can generate a refund larger than the amount of payments you made.

Alternative Minimum Tax (AMT): A complicated income tax that is activated when there are excessive deductions and tax benefits.

Annuity: A contract that you purchase from an insurance company which stipulates that a certain sum will be paid on a regular basis over a specific amount of time or a lifetime.

Annuity, Accumulated: An annuity contract that provides payments to be postponed until a specified period of time has elapsed — for example, 10 years or when the annuitant reaches a certain age. The annuity can be purchased in one lump sum or with periodic (after-tax) payments until the withdrawing process begins.

Annuity, Deferred (Accumulated): An annuity whose contract provides that payments to the annuitant be postponed until a specified period of time has elapsed, for example, 10 years or when the annuitant reaches a certain age. It can be purchased in one lump sum or with periodic (after-tax) payments until the withdrawing process begins.

Annuity, Fixed: Always pays a set amount of income for the life of the contract. The investment risk is borne by the insurance company.

Annuity, Immediate Fixed: Begins payments as soon as you purchase the contract and always pays a set amount of income for the life of the contract. The investment risk is borne by the insurance company.

Annuity, Private: An annuity contract that is entered into by private parties, not an insurance company.

Annuity, Tax-Sheltered (TSA) or 403(b) Plan: Similar to a 401(k) plan, but set up for public employees and employees of nonprofit organizations.

Annuity, Variable: A regular monthly payment that varies in amount based on the performance of the securities held in the insurance company's portfolio. These annuities are covered by insurance company laws that
shelter gains from current taxation. They carry more stock market risk than fixed annuities, but have a greater potential for appreciation.

**Asset Allocation:** Diversifying investment dollars among a variety of asset classes such as cash equivalents, stocks, bonds, real estate, and precious metals.

**Asset Classes:** A group of investments that have similar financial characteristics, behave similarly in the marketplace, and are subject to similar laws, regulations, and taxes. The main asset classes are cash and cash equivalents, bonds, bond mutual funds and other fixed-income investments, stocks and stock mutual funds, and Other assets that include individually owned real estate, small businesses, partnerships, venture capital, life insurance and hard assets.

**Assets:** What you own of value; also what is owed to you.

**Assets, Liquid:** Assets that have the ability to quickly convert from an investment portfolio into cash without suffering a noticeable loss in value. Stocks and bonds of highly traded companies are considered liquid, while real estate is illiquid.

**Automatic Withdrawal:** A regular monthly withdrawal from a checking, savings, or other type of cash account to automatically pay a bill such as a mortgage, utility, or insurance premium.

**Balance Sheet:** A financial form that lists, as of a specific date, the financial assets and liabilities of a person, family, or business, and shows the difference (net worth) between the two.

**Bearer Bonds:** Bonds that do not have the owner's name registered on the books of the issuer. Interest and principal, when due, are payable to the holder.

**Beneficiary:** The person named in an insurance contract, retirement plan, will, or trust agreement who will receive the right to benefits, income, or property, upon the occurrence of some event, such as a death.

**Benefits, Employment:** An important part of your compensation package, they may include health insurance, life insurance, and retirement plans. Many benefits can be tax free to the individual.

**Benefits, Insurance:** The amount of money to be paid to the insured or the insured’s beneficiary by the insurer according to the terms of the insurance contract.

**Bond:** Basically an IOU or promissory note that can be issued by a corporation or a government agency. You lend money by purchasing the bond, and in return you receive a certain amount of fixed interest over the lifetime of the bond, and then get your money back at the maturity date.

**Bonds, Corporate:** Bonds issued by corporations are backed by corporate assets. In case of default, the bondholders have a legal claim on these assets. The holder of a corporate bond is a creditor of the corporation, not a part owner as is a shareholder.

**Bonds, High-/Low-Quality:** Bond rating companies, such as Standard & Poor's and Moody's, judge bonds on the ability of the issuer to fulfill its obligations to repay interest and the principal when due. The highest quality bonds are rated triple-A, while a low quality bond would be rated C or D.

**Bonds, Intermediate:** Bonds that have a maturity of three to 10 years.

**Bonds, Long-Term:** Bonds that have a maturity over nine years.

**Bonds, Municipal:** A method by which state or local government agencies borrow money. Income from these bonds is exempt from federal income taxes.

**Bonds, Short-Term:** Bonds that have a maturity of under three years.

**Bonds, Treasury:** See Treasury Bonds.

**Bonds, U.S. Government Savings:** Savings certificates issued by the government. They are sold at less than their face value but may be cashed in for their full value after a specified length of time.

**Capital:** Accumulated assets or net worth.

**Capital Asset:** Any property intended for use or possession over a long period of time. In a business it would include buildings and equipment; for individuals it can be homes, jewelry, household furnishings, automobiles, stocks, etc.
Cash/Cash Equivalents: Includes checking and savings accounts, certificates of deposit, money market accounts, savings bonds, money market funds, treasuries with a maturity date of under three months, and cash on hand.

Cash Flow: Where your income comes from and where it goes (expenses).

Cash Surrender Value: The amount of money an insurance policyholder would receive if the policy were cashed in. This would be made up of the policyholder’s cash within the policy, plus any unused premiums, plus any dividends, less any principal and interest on any loans.


CFA: Chartered Financial Analyst, member of the Association for Investment Management & Research (AIMR), 800.247.8132.

CFP®: Certified Financial Planner®, is licensed by the Certified Financial Planner Board of Standards, Inc. (CFP Board) 800.487.1497, www.cfp.net/.

Charitable Gift Annuity: A method of planned giving whereby a contract between the donor and the charity provides for an annuity to the donor (or a person of the donor's choice) for life, in exchange for a gift. Such gift annuities also offer the donor income tax, capital gains tax, and estate tax benefits.

Charitable (“Immortality”) Trust: A trust that is set up to provide an ongoing current benefit, such as a scholarship, or to grant funds for future generations.

Charitable Lead Trust (CLT): A CLT is often viewed as the opposite of a charitable remainder trust. A donor transfers property to the lead trust, which pays a percentage of the value of the trust assets to a named charity, usually for a term of years. At the end of the trust term, the remaining assets in the trust and any growth it has realized are distributed to your heirs or the beneficiaries you elect. Although there is no income tax deduction when you create a charitable lead trust, your gift or estate tax can be greatly discounted and any growth is passed to your heirs gift and estate tax free.

Charitable Remainder Trust (CRT): A trust into which assets are contributed that provides a donor with an income-tax deduction and a beneficiary with a current income over a period of time, with the remaining principal going to a charity.

Chart of Accounts: A systematically arranged list of accounts applicable to a specific concern, giving account names and numbers if any.


Collateral: Security pledged by a borrower on a loan.

Common Stock: A share of ownership in a corporation. Common stockholders are last in line if a company goes under and thus have more risk than bondholders or preferred stockholders. In return they could gain more reward in the form of capital appreciation.

Community Property (CP): Property held equally (in community) by husband and wife, which has accumulated during marriage (except through inheritance or gift). Community property laws are in effect in eight states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington.

Compounding Returns: The earning on earnings from invested principal when it is left to accumulate. This can be interest, dividends, or growth through appreciation.

Convertible Securities: Various forms of securities that can be exchanged for another form of security. These typically have a predefined conversion ratio. Convertible preferred stocks or bonds are frequently exchanged for common stock upon a liquidity event.

Corporation: A business that has been chartered by a state to be a legal entity owned by stockholders. Regarded by the courts as an artificial person, it may own property, incur debts, sue, or be sued. Its owners have limited liability, in that they can lose only what they have invested.
Corporation, “C”: The most common form of corporation used by larger companies, although it can also be a single person. A “C” corporation gives its shareholders liability protection, but the IRS can tax the owners twice: it will tax the corporation for the profit and then tax the shareholders upon a distribution. Tax losses for the corporation cannot be passed on to be declared by individual shareholders.

Corporation, “S”: Similar to a general partnership, except that it gives shareholders the liability protection of a corporation. (Shareholders may deduct losses from their taxes only to the extent of their equity investment.) “S” corporations are limited to 100 shareholders.

Coverdell Education Savings Account (ESA): Set up to fund your children's education costs, an ESA is an account to which nondeductible annual contributions of up to $2000, per child, may be made until the child turns 18. The funds grow tax free and can be used for the child’s qualified higher-education expenses without incurring taxes. There are income earnings limits to qualify for an ESA.

Cost Basis: The price you paid for an asset plus or minus any tax adjustments. In the case of stocks or mutual funds, your cost basis would be what you paid for it plus commissions, plus any capital gains, interest or dividends reinvested. If you receive stock or mutual funds as a gift, your basis is the basis of the donor, not the market value of the gift at the time of the transfer.

CPA: Certified Public Accountant, an accountant who has fulfilled certain requirements of the American Institute of Certified Public Accountants, 888.777.7077, www.aicpa.org

CPA/PFS: Certified Public Accountant/Personal Financial Specialist, an accountant who has fulfilled certain requirements of the American Institute of Certified Public Accountants to be a CPA plus additional requirement to be a PFS, 888.777.7077, www.aicpa.org

Credit Report / Credit Score: Credit reports contain information about your bill payment history, loans, current debt, and other financial information. They show where you work and live and whether you've been sued, arrested, or filed for bankruptcy. You can obtain a free credit report annually from www.annualcreditreport.com. A credit score is a number that rates your credit risk at one point in time. It can help creditors determine whether to give you credit; decide the terms you are offered, or the rate you will pay for the loan. A credit score is not available for free with your credit report, but is available for a fee.


Current Value: The fair market value of real or personal property. The price a willing buyer will pay a willing seller in a non-distressed sale environment.

Decanting: Is the process of transferring assets from one trust into another. Trust decanting allows a trustee to establish a new trust with more beneficial trust, eliminating some unfavorable elements within a previous trust.

Deferred (Accumulated) Annuity: An annuity whose contract provides that payments to the annuitant be postponed until a specified period of time has elapsed, for example, 10 years or when the annuitant reaches a certain age. It can be purchased in one lump sum or with periodic (after-tax) payments until the withdrawing process begins.

Deferred Compensation Plan: A form of retirement plan or compensation, generally limited to management personnel, in which both the payment of compensation and the income tax on the compensation can be deferred for a period of years or until after retirement.

Defined Contribution Pension Plan: Employer-sponsored retirement plans, such as 401(k) plan, in which the employee is responsible for making a portion of the contributions toward the plan. The employer may or may not match the employee's contributions.

Depreciation: Decline in the dollar value of an asset with use or over time.

Discretionary Spending: Spending — of funds available after mandatory spending — over which you have control or decision power, such as meals out or entertainment.
**Diversification:** The portfolio strategy of reducing risk by investing in a variety of assets. It is closely related to asset allocation and is based on the principle of not putting all your eggs in one basket. It includes allocating assets over a wide range of asset classes along with a range of holding within each asset class. **Dividend:** A share of company profits distributed to stockholders.

**Domestic Fixed Income:** Includes U.S. domestic debt instruments, such as corporate or government bonds, certificates of deposit, deeds of trust, and notes receivable, with a maturity date of over three months.

**Domestic Stocks:** Includes U.S. stocks of larger companies, smaller companies, venture capital holdings, equity income, and convertible securities.

**Donor Advised Fund (DAF):** A DAF is a charitable giving vehicle that’s administered by a public charity created to manage charitable donations on behalf of individuals, families, or organizations.

**Durable Power of Attorney for Financial Management:** A legal document that gives the person(s) you select the power to manage your assets in the event that you are unable to do so. It does not cover assets that are in a trust, as these are managed by the trustee.

**Durable Power of Attorney for Health Care:** This legal document gives the person(s) that you select the power to make medical and health care decisions for you in the event that you are unable to make those decisions yourself. In some states this may also be referred to as an Advance Healthcare Directive.

**Educational Savings Account – Coverdale (ESA):** Set up to fund your children’s education costs, an ESA is an account to which nondeductible annual contributions of up to $2000, per child, may be made until the child turns 18. The funds grow tax free and can be used for the child’s qualified higher-education expenses without incurring taxes. There are income earnings limits to qualify for a ESA.

**Emerging Market Stocks:** Stocks of companies from third world nations: newly developing markets traditionally have low liquidity, high risks, and the potential for high returns.

**Equity Income:** A characteristic of a company or mutual fund that has high dividends, such as a utility or a convertible bond.

**Essential Principles of Smart Personal Financial Management:** A collection of financial doctrines that pertain to the eleven components of personal financial management: paperwork, net worth, cash flow, employment benefits, goals, financial independence / retirement planning, major expenditures planning, investment planning, tax planning, insurance planning, and estate planning.

**Estate:** The total of all types of property owned and debts incurred by a person at a particular time, usually upon his or her death.

**Estate Planning:** The process of developing appropriate strategies to accumulate, preserve, manage, and transfer assets over one’s lifetime, disability, and upon death. This is based upon your current personal values and objectives using appropriate legal documents, titling of assets, and beneficiary selections to implement them.

**Estate Planning Law Specialist (EPLS):** The Estate Law Specialist Board, Inc., an attorney-run subsidiary of the National Association of Estate Planners & Councils in Cleveland, Ohio, is the only American Bar Association-accredited program for certification of an attorney as an Estate Planning Law Specialist (EPLS). 888.226.2224, www.naepc.org/estate_law.web

**Estate Tax:** There is an estate exclusion of $5 million indexed for inflation after 2011, per person, and a top estate tax rate set at 40%. For decedents dying in 2017 the exclusion is $5.49 million.

**Executor:** The individual or organization appointed in a will to administer the disposition of an estate according to the instructions in the will.

**FPA (Financial Planning Association), 800.322.4237, www.FPNET.org**

**Fair Market Value:** The price a willing buyer will pay a willing seller in a non-distressed sale environment.

**Fiduciary:** A person who assumes responsibility for a position of trust.

**Financial Independence:** The ability to do what you want, when you want, without having to concern yourself with “outside” financing.
**Financial Literacy:** The understanding and effective use of the essential principles to smart personal financial management to address everyday financial decisions in an informed manner, thus empowering people to
• Make better informed and productive everyday money decisions • Save time and money with their financial advisors and service providers • Have the best opportunities to reach and maintain their personal / family financial dreams • Enjoy a financially secure debt free future • Advance their philanthropy and legacy plans.

**Financial Planning, Comprehensive:** This is the process of developing a complete strategy and plan to have the best probability to reach and maintain a defined set of short, intermediate and long-term financial and life goals. The process starts by defining goals and needs; followed by gathering, organizing, and analyzing relevant financial data; identifying strategies, selecting and implementing the appropriate strategies, and tracking and monitoring the process.

The areas addressed by comprehensive financial planning include organizing appropriate personal and financial data; which includes hard copy and digital paperwork and records, inventorying what you own and owe, understanding how you make and spend your money, dealing with employment benefits; establishing personal and financial goals, addressing financial independence and retirement planning, major expenditures -- buying a car and house, funding education, …; investments, taxes, insurance, and estate planning.

To develop, implement, and/or manage a comprehensive financial plan usually requires input and assistance from various financial service and nonprofit professionals that many include attorneys, Accredited Estate Planners®, Certified Financial Planners®, Certified Public Accountants, Certified Trust and Financial Advisors, Chartered Financial Consultants®, and Chartered Life Underwriters® and other appropriate credentialed and licensed professionals.

**Fixed Annuity:** An annuity that always pays a set amount of income for the life of the contract. The investment risk is borne by the insurance company.

**Fixed Income:** Includes company, U.S. government, or foreign bonds that are issued directly or are part of a mutual fund, and other domestic or foreign debt instruments, such as certificates of deposit, deeds of trust, and notes receivable, with a maturity date of over one year.

**FPA:** Financial Planning Association, 800.322.4237, www.fpanet.org/.

**Futures Contract:** An agreement to buy a certain amount of a commodity (such as corn, soybeans, or gold) or even Treasury Bills or currency, at a stipulated price at a specified future month. As the time draws closer to the purchase date, the price of the contract can fluctuate widely up and down due to rain in Iowa or any number of variables, hopes and fears. A good way to make or lose a lot of money in just a few minutes.

**General Partnership:** A partnership in which each partner shares in the control and management of the business, and each partner is personally liable for the full amount of partnership indebtedness.

**Generation-Skipping Tax (GST):** A tax applied when the recipient of a gift or bequest is two or more generations younger than the giver (for example, a gift from a grandparent to a grandchild). Generation-skipping tax exemption is $5 million indexed for inflation after 2011, per person, and a GST Tax rate of 40%.

**Gift Taxes:** Lifetime gifts made in excess of the annual gift tax exclusion per donee ($14,000 in 2016 subject to inflation adjustments) are subject to gift taxes. Gifts made in 2017 receive an exclusion amount of $5.49 million indexed for inflation with additional gifts taxed at a top tax rate of 40%.

**Growth Stocks:** A characteristic attributed to the stock of a company that has invested its capital and used its assets to realize a rate of return well in excess of the cost of that capital and assets.

**Guardian of the Person:** The person appointed in a will or by a court to care for minor children or an incompetent adult.

**Guardian of the Property:** The person appointed in a will or by a court to care for the property of minor children or an incompetent adult.

**Hard Assets:** Tangible assets such as precious metals, gems, art, antiques, and collectibles.
Health Maintenance Organization (HMO): An organization which contracts with a group of physicians and hospitals to provide services to individuals who subscribe to its health plan, either privately or through their employer. A fixed, prepaid fee is charged for services, regardless of the expense of the care rendered.

Hedge: An investment position intended to offset potential losses/gains that may be incurred by a companion investment. A hedge is used to reduce substantial losses/gains incurred by having a large amount of assets in a single position. It is a risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies, or securities.

HIPPA (The Health Insurance Portability and Accountability Act) Authorization / Release: Is a separate document or language incorporated into an Advance Healthcare Directive. This allows you to name an individual who can have access to your medical information so that your healthcare provider or insurance company will have no reservations about sharing your protected medical information with them.

Home Equity Line of Credit: A line of credit using the equity in your home as collateral. The interest paid may be deductible even if the funds were used to buy a car.

Hope Scholarship Credit: This credit has been replaced with The American Opportunity Tax Credit (TAOTC).

Immediate Fixed Annuity: Begins payments as soon as you purchase the contract and always pays a set amount of income for the life of the contract. The investment risk is borne by the insurance company.

Immortality (Charitable) Trust: A trust that is set up in your name to provide an ongoing benefit, such as a scholarship or to grant funds for future generations.

Incentive Stock Option (ISO): An employee stock option plan that grants key employees options to purchase company stock at a predetermined price without incurring a tax liability at the time the option is granted or when exercised. It may create an alternative minimum tax exposure.

Income Risk: The risk that income which you are expecting does not occur.

In-Force Ledger Illustration: A report prepared by an insurance company to illustrate the current and future values of an existing life insurance policy.

Index: Statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month.

Index Fund: A mutual fund whose portfolio matches that of a broad-based index such as Standard & Poor’s index, and whose performance therefore matches its particular market as a whole.

Individual Retirement Account (IRA): A retirement plan account that is available to a qualified worker with income limitations, that you can open and obtain a tax deduction for cash contributions up to $5,500 ($6,500 if you are over age 50) annually. Subject to certain limitations, each spouse is entitled to deduct up to $5,500 ($6,500 if you are over age 50), providing the couple’s combined earned income is at least that amount. These funds grow tax deferred.

Inheritance Tax: The state tax paid on the value of property and money received from another person at their death. Not all states have an inheritance tax.

Insider Trading Rules: It is against the law to buy or sell stocks in a company about which you have “insider” information that is unavailable to the general public.

Insurance, Accidental Death & Dismemberment: A policy that pays a benefit if the insured dies by other than natural causes. It also pays a benefit if the insured loses sight, hearing, speech, or the use of a limb from an accident.

Insurance, Cash Value Life: This type of life insurance has a savings element built into the policy. The premiums are higher, but cash values can build inside the policy. If your insurance needs are long-term (10 years or more), a good participating cash value-type policy could be less expensive than an annual renewable term policy.
Insurance, Casualty: This area of insurance includes Vehicle, Property, Business, and Liability Insurance. Casualty Insurance is primarily concerned with insurance covering losses due to property damage and legal liability to third persons.

Insurance, Disability: This insurance provides periodic payments to replace income when the insured is unable to work as a result of illness, injury, or disease.

Insurance, Financial: This area of insurance includes life, health, vision, dental, disability and long-term care insurance. Financial insurance is primarily concerned with covering costs related to health, loss of earnings, and the loss of life.

Insurance, Health: This insurance provides coverage for the cost of doctors' fees, hospitalization, medication, and other related medical expenses resulting from sickness or accident. Medical insurance is often provided as a valuable benefit by employers.

Insurance, Health Maintenance Organization (HMO): Coverage for medical services provided by physicians and hospitals who have contracted with the HMO. A fixed, prepaid fee is charged for services, regardless of the expense of the care rendered. Policies are often received as a benefit of employment but can be purchased privately as well.

Insurance, Life: This insurance provides coverage for the loss of life. There are various types of life insurance policies marketed under various names, but generally they fall under two categories: term insurance and cash value insurance.

Insurance, Long-Term Care: This insurance provides money needed to cover the costs of long-term care in a nursing home or in the insured’s residence.

Insurance, Personal Liability Umbrella: This insurance protects against losses above and beyond those covered by basic homeowner’s, automobile, business, and other property liability insurance. It is usually written in increments of $1 million requires minimum underlying insurance from the casualty insurance policies.

Insurance, Preferred Provider Organization (PPO): Coverage for medical services provided by a limited group of physicians and hospitals who have contracted with the PPO. Generally, only services rendered to subscribers by member physicians and hospitals are covered in full. Policies are usually marketed through an insurance company.

Insurance, Term Life: This insurance provides a death benefit if death occurs while the policy is in force. It provides protection for a specific period of time. Once the period ends there are no death benefits or cash values. This type of life insurance is usually the least expensive on a year-by-year basis, with premiums gradually increasing each year as the insured ages.

Insurance, Universal Life: This policy combines term and whole life. It has a death benefit and cash values. The policy is flexible and allows you to adjust premium payments between the death benefit and the cash values.

Insurance, Variable Life: This is also a combination of term and whole life. It has a death benefit and cash value. Like universal life, the policy is flexible and allows you to adjust premium payments between the death benefit and the cash value. Variable life policies also allow you additional flexibility in that you can invest in various combinations of money market, stock, or bond funds.

Insurance, Whole Life: See Insurance, Cash Value Life.

International Fixed Income: Shares in a fund that includes foreign debt instruments.

International Stocks: Shares in any company incorporated and listed on an overseas/foreign stock exchange.

Irrevocable Trust: A trust in which the trustor, the individual who supplies that assets used in setting up a trust, does not retain the right to revoke or amend the trust.

Joint Tenancy with Rights of Survivorship (JT): A method of ownership in which two or more persons can hold equal or unequal percentages in real estate, financial investments, or personal property. If one dies, his or her share automatically goes to the others, even if a will specifies otherwise.

Joint Venture Company: An organization of two or more persons or companies that is formed for the purpose of working on a project together.
Keogh: A program by which self-employed individuals may make tax-deferred contributions to a retirement plan.

Large Companies: Companies with a capitalization of more than $1 billion.

Lease: An agreement that is entered into between a lessee and lessor, where the lessor provides certain property to the lessee under defined conditions for consideration.


Life Insurance (Wealth Replacement) Trust: A trust that is usually set up as an irrevocable trust for the purpose of receiving life insurance. Properly structured, proceeds from this trust are estate tax and income tax free.

Lifetime Learning Credit: A 20% credit available against federal income taxes which is applied to the first $10,000 of qualified expenses (these include educational expenses to acquire or improve job skills). This credit applies to college juniors, seniors, graduate students, or working Americans pursuing job training skills. These credits apply to expenses paid for an academic year. This credit is phased out as income increases.

Limited Liability Company: An LLC is a state-approved hybrid entity where the principal assets of the owners (other than their interest in the LLC) are not subject to the risk of creditor claims for the company’s business debt. All owners participate in management, and profits and losses can be shared as agreed upon by the members. Most LLCs are designed to be taxed as partnerships, thereby avoiding the double layer of taxation encountered in a “C” corporation.

Limited Partnership: A partnership in which there must be at least one general partner who is responsible for the management and debts of the company, and one or more limited partners who have no control over management and are liable for indebtedness only to the extent of their investment.

Liquidity: The ability to quickly convert an investment portfolio to cash without suffering a noticeable loss in value. Stocks and bonds of widely traded companies are considered highly liquid, while real estate and limited partnership interests are not liquid.

Living (Inter vivos) Trust: A trust that is created while the grantor is alive. It may be revocable or irrevocable.

Loan, Fixed or Variable Rate: Fixed or variable rate refers to the interest rate charged on the loan. Fixed-rate loans charge a set annual interest rate for a specific number of years, for example, 5% interest per year for 15 years. Variable-rate loans normally start with a reduced rate for a short period of time, called a “teaser rate.” Due to this teaser rate, variable-rate loans are usually less expensive in the short term. In the long term, depending on what happens to interest rates, either loan could be better. Variable-rate loans have the potential of lower payments if interest rates are stable or go down, but they also have the risk of higher payments if interest rates go up.

Loan, Revolving: A loan that can be paid down or borrowed against, such as a credit card or a line of credit.

Loan, Term: A loan that is repaid over a specified period of time.

Loan/Promissory Note: A written promise to pay back borrowed funds.

Loan, Second Mortgage: A loan secured by property that is secondary to a first mortgage. This is typically a home remodeling loan or a debt consolidation loan. The term is usually for three to 15 years.

Loan, Student: A special loan designed to help a student and his or her family fund the high costs of education. Examples include extra-credit loans, Stafford loans, Sallie Mae loans, and Educational Resources Institute loans. For information regarding these and other loan programs, contact the specific school you are interested in or specific financial institution that markets such loans.

Long-term Appreciated Assets: Assets that are held for more than one year.

Mandatory Spending: Required spending, such as a mortgage, lease payments, loan payments, and other necessities.

Master Account: A checking or money market account that is used as a control account where wages and investment income are deposited before being dispersed to spending accounts.

Matching Contribution: The funds paid by an employer in a defined benefit plan, such as a 401(k), to match the contributions of an employee.
Some employers match dollar for dollar up to a limit; others match a fraction of the employee contribution, such as 25 or 50 cents on the dollar.

**Medicaid**: a joint federal and state program for people of any age who need assistance to pay their medical bills.

**Medicare**: a federal health insurance program for those 65 or older. Medicare A, the hospital part of Medicare, covers various inpatient services. Medicare B is an optional provision providing coverage of outpatient services, prescription drugs, and other covered costs. Medicare coverage is not comprehensive.

**Medigap**: any of a variety of supplemental insurance policies offered by private companies to provide coverage for medical expenses not covered by Medicare A and B.

**Money Market Fund**: A mutual fund whose investments are in high-yield money market instruments such as federal securities and certificates of deposit.

**Mortgage**: Sometimes called a deed of trust. It is a loan on property using the property as security for the loan.

**Municipal Bonds**: A method by which state or local government agencies borrow money. Income from these bonds is exempt from federal income taxes.

**Mutual Fund**: A portfolio of any combination of stocks, bonds, or government securities bought and sold by a money manager.

**Mutual Fund, Balanced**: A fund that has a combination of stocks and fixed income investments.

**Mutual Fund, Blended**: A fund that combines growth and value.

**Mutual Fund, Closed-Ended**: A type of pooled investment fund that has only a fixed number of shares to sell, and no more. Shares might be sold over the counter or on the stock exchange.

**Mutual Fund, Open-Ended**: The majority of mutual funds are open-end companies. They do not have a fixed number of shares; they issue more shares as investors want them. The price is based on the net asset value (NAV) of the underlying investments in the fund.

**Negotiable Instrument**: Unconditional order to pay an amount of money, easily transferable from one person to another, such as a check or promissory note.

**NAEPC (National Association of Estate Planners and Councils)**: 888.226.2224, www.NAEPC.org

**NAPFA (National Association of Personal Financial Advisors)**: 888.333.6659, www.napfa.org

**Net Asset Value (NAV)**: Calculated by most mutual funds after the close of the exchanges each day, by taking the closing market value of all securities owned plus all other assets such as cash, subtracting all liabilities, then dividing the result by the total number of shares outstanding.

**Net Worth**: Total assets minus total liabilities.

**No-Load Fund**: A mutual fund that charges no commission on the purchase of its shares because there are no salespeople.

**Non-qualified Stock Option (NQSO)**: These are granted to key individuals as a right to purchase company stock at a predetermined price. When the option is exercised, the difference between the option price and the fair market value is taxed as compensation.

**Nontaxable Accounts**: Savings and investment accounts in which the interest, dividends, or gains earned are not taxable until withdrawn. Such accounts include IRAs, 401(k)s, pension and profit-sharing plans, other retirement plans, annuities, and cash value life insurance.

**Note Receivable/Loan**: A written promise to repay borrowed funds.

**Option**: A purchased right to buy or sell a fixed amount of stock for a specified amount within a limited period of time.

**Over the Counter**: This is the principal market for bonds of all types. Actually conducted over the telephone, it also deals with stocks of companies without sufficient shares, stockholders, or earnings to warrant listing on an exchange.

**Payroll Tax**: Payroll taxes are taxes imposed on employers and employees, usually based on a percentage of the employee’s wages. They consist of deductions from the employee’s paycheck, and taxes owed
by the employer on the employee’s wages such as: federal income tax withholding (based on withholding tables in Publication 15), employee and employer FICA tax for Social Security, Medicare, Unemployment Taxes for federal and state, state income tax withholding, various local tax withholdings (such as city, county, or school district taxes, state disability or unemployment insurance). https://www.adp.com/tools-and-resources/compliance-connection/state-taxes/2017-fast-wage-and-tax-facts.aspx.

Pension Plan: Money set aside to provide income or annuities to retired or disabled employees.

Periodic Spending Fund: A cash flow management account used to hold cash until expenditures, such as taxes, insurance premiums paid quarterly, or other periodic expenditures, are due.

POLST (Physician Orders Life Sustaining Treatment) Form: A medical order that is always signed by a doctor and, depending upon the state, the patient. The POLST form is designed to be recognized and actionable throughout the entire medical community, and is for patients with life-limiting illnesses or progressive frailty.

Pooled Income Fund: A method of planned giving whereby gifts of cash or stock are “pooled” by the receiving charity into a special fund and invested. Each year, the donors receive their proportionate share of the investment income earned by the fund as well as significant income tax, capital gains tax, and estate tax benefits. At the donor’s death, the donor’s contributions to the fund pass directly to the charity.

Portability: Beginning for taxpayers dying after Dec. 31, 2010 the estate tax exclusion becomes “portable” between spouses. This means that the surviving spouse’s exemption is increased by any exemption not used at the first spouse’s death.

Power of Appointment: A power or authority, which may be conferred by one person to another to dispose of property.

Power of Attorney: A written instrument, authorizing a person to act as the agent, or attorney-in-fact, and perform specific acts on behalf of another.

Power of Attorney for Health Care: A document that gives an agent or your appointee the power to make medical and health care decisions for you in the event you are unable to make those decisions yourself.

Power of Attorney for Financial Management: A document that gives your appointee the power to act on your behalf pertaining to assets outside a trust in the event you are unable to do so.

Preferred Provider Organization (PPO): A health insurance organization which contracts with a limited group of physicians and hospitals to provide services to individuals who subscribe to its health plan. Generally, only services rendered to members by physicians and hospitals within the PPO are covered in full.

Preferred Stock: A class of stock that is entitled to dividends and liquidated preferences prior to common stockholders. These generally pay less income than bonds issued by the same company.

Periodic Spending Fund: A cash flow management account used to hold cash until expenditures such as taxes, quarterly insurance premiums, or other periodic expenditures are due.

Primary Documents: One-of-a-kind documents such as stock confirmations, employee benefit statements, notes, deeds of trust, tax returns, insurance policies, wills, trusts, etc.

Prime Rate: The lowest interest rate charged by commercial banks to their most creditworthy customers.

Principal: The sum on which interest accrues (as distinguished from interest or income); also, a person who authorizes another person to represent him or her in a business transaction.

Principal Risk: The risk of losing part or all of the original investment.

Private Annuity: An annuity contract that is entered into by private parties, not an insurance company.

Probate: The legal process of administering the non-trust assets of the estate of a deceased person.

Profit-Sharing Plan: Any plan in which a portion of the profits of a company are set aside for distribution to its employees.
**Purchase Lease**: A lease entered into that is really a purchase; typically at the end of this lease, there is a $1 buyout.

**Purchasing Power Risk**: This is a consequence of inflation. If an investment’s total return doesn’t exceed the rate of inflation during the investment’s holding period, the investor suffers a loss of purchasing power.

**Qualified Terminal Interest Property (QTIP) Trust**: A trust created at death by a will or living trust which provides all of the income to the surviving spouse for life. Upon that survivor’s death, assets go to beneficiaries previously designated by the deceased spouse. Properly set up, this trust avoids any estate taxes on the estate of the first spouse. However, at the surviving spouse’s death, the QTIP is included in the estate of the surviving spouse. Depending on the overall size, it may be taxed as part of his or her estate.

**RIA (Registered Investment Advisor)**: State Department of Corporations; and Financial Industry Regulatory Authority 301.590.6500, www.finra.org

**Rate of Return**: The cumulative earnings from an asset over a defined period of time, usually one year. The rate of return might include interest, dividends, appreciation, tax savings, or a combination of these. Rate of return is expressed as a percentage of the beginning principal amount, for example, a 5% rate of return.

**Real Estate Investment Trust (REIT)**: An unincorporated association that invests in mortgages or real property and sells shares to the public.

**Retained Life Estate**: A method of planned giving whereby a personal residence or vacation home is given to charity, with the donor retaining the right to live in the property for life as well as receiving significant income tax, capital gains tax, and estate tax benefits.

**Revolving Credit**: A loan that can be paid down or borrowed against, such as a credit card or line of credit.

**Rights of Survivorship**: In joint tenancy, the right of a survivor to acquire the share of the property of the joint tenant who dies.

**Roth IRA or Backloaded IRA**: An Individual Retirement Account to which qualified workers may make nondeductible contributions. The maximum contribution is $5,500 ($6,500 if you are over age 50) less any contributions made to other IRAs or to workers compensation. The funds grow tax free. Up to $10,000 can be used for first-time home purchase by the worker, the worker’s spouse or lineal ancestors and descendents of the taxpayer. After age 59½, the account holder may withdraw any or all proceeds without incurring federal income tax, if certain conditions are met.

**SEP (Simplified Employee Pension Plan)**: A qualified plan which accepts the employee’s and the employer’s contributions into the employee’s IRA.

**Second Mortgage Loan**: A loan secured by property that is secondary to a first mortgage. This is typically a home remodeling loan or a debt consolidation loan. The term is usually from 3 to 15 years.

**Separate Property**: Ownership of property solely in one person’s name. The property was acquired either prior to marriage or as a gift or inheritance.

**Simplified Employee Pension Plan (SEP)**: A qualified plan which accepts the employee’s and the employer’s contributions into the employee’s IRA.

**Small Companies**: Companies that have capitalization value of under $1 billion.

**Sole Proprietorship**: An unincorporated business having only one owner.

**Spending Account**: A checking or money market account that is used to control monthly spending by having a predetermined amount deposited into it each month.

**Standard Deviation**: A specific measure of volatility; generally, the more volatile the investment, the greater the risk to your principal.

**Stock Dividend**: The issue of new stock from a corporation, proportionately to its shareholders based on the current stockholders’ holdings. Stock dividends do not represent a distribution of earnings.

**Stock Option**: A purchased right to buy or sell a fixed amount of a given stock for a specified amount within a limited period of time. It can also be an employee benefit, allowing the employee to purchase stock, usually at below market value.

**Stock Option, Incentive (ISO)**: An employee stock option plan that grants key employees options to purchase company stock at a predetermined price
without incurring a tax liability at the time the option is granted or when exercised. It may create an alternative minimum tax exposure.

**Stock Option, Regular (RSO):** Also known as Statutory Stock Options, these are granted to key individuals as a right to purchase company stock at a predetermined price. When the option is exercised, the difference between the option price and the exercise price is taxed as compensation.

**Stock Split:** A division of outstanding shares into a greater number of shares. The shareholder retains the same percentage of ownership with a different number of shares.

**Student Loans:** Special loans designed to help students and families fund the high costs of education. Examples include extra-credit loans, Stafford loans, Sallie Mae loans, and Educational Resources Institute loans. For information regarding these and other loan programs, contact the specific school you are interested in or a specific financial institution that markets such loans.

**Tax, Alternative Minimum (AMT):** A complicated income tax that is activated when there are excessive deductions and tax benefits.

**Tax, Capital Gains:** Capital gains are the profits realized when certain capital investments, such as stocks, bonds, mutual funds, and real estate, are sold. The federal capital gains tax ranges from 0% to 39.6%, depending on how long the asset has been held, the taxpayer's taxable income, and the type of investment class. States may impose an additional state tax.

**Tax, Excise:** The manufacture, sale, or purchase of tobacco, alcohol, telephone services, and airline tickets are subject to federal excise tax.

**Tax, Generation-Skipping:** The tax generally applies after application of exemptions and deductions, when the beneficiary belonging to a generation younger than that of the party who is making a gift is skipped to an even younger generation (for example, from a grandparent to a grandchild). This tax is at a flat rate, equal to the highest estate and gift-tax rate.

**Tax, Gift & Estate:** The federal tax imposed on transfers (gifts) either during one’s lifetime or at death (estate). **Gift Taxes:** Lifetime gifts made in excess of the annual gift tax exclusion per donee in 2017 ($14,000 subject to an inflation adjustments) receive an applicable exclusion amount of $5.49 million and are subject to a maximum 40% tax rate. **Estate Tax:** There is an estate exclusion of $5.49 million per person, indexed for inflation, and a top estate tax rate set at 40% for decedents.

**Tax, Income:** Federal income taxes are indexed up to 39.6% for 2016. State and local income taxes can average another 5–11%.

**Tax, Inheritance:** The state tax paid on the value of property and money received from another person after their death.

**Tax, Net Investment Income Tax (NIT):** Is imposed at a rate of 3.8% to certain net investment income of individuals, estates and trusts that have income above the statutory threshold amounts. For modified adjusted incomes over $250,000 for married filing jointly, $200,000 for singles.

**Tax, Property:** Some cities, counties, and states collect tax on property such as real estate, automobiles, and business property.

**Tax Risk:** The risk that the IRS will change the tax laws or disallow a tax deduction and you will owe penalties and back interest.

**Tax, Sales:** Some states, counties, and cities tax retail sales. Only Alaska, Delaware, Montana, New Hampshire, and Oregon have no sales tax.

**Tax, Self-Employment:** Self-employed individuals must pay Social Security and Medicare taxes of 15.3% on the first $127,200 (2017) earned and 2.9% (Medicare only) on the balance of their income. For high earners, Medicare takes a somewhat larger bite, under a provision of the Patient Protection and Affordable Care Act. Beginning in 2013, the employee-paid portion of the Medicare FICA tax became subject to the 0.9 percent Additional Medicare Tax. The threshold amounts are $250,000 for married taxpayers who file jointly, $125,000 for married taxpayers who file separately, and $200,000 for single and all other taxpayers.

**Tax-Sheltered Annuity (TSA) or 403(b) Plan:** Similar to a 401(k) plan, but set up for public employees and employees of nonprofit organizations.

**Taxable Accounts:** Savings and investment accounts in which the interest, dividends, or gains earned on the accounts must be declared on your tax return.
Tenancy-in-Common (TIC): Two or more holders of equal or unequal shares of property which cannot be sold without the consent of the others, and which carry no rights of survivorship, as in joint tenancy.

Term Life: Provides a cash benefit if death occurs while the policy is in force. The insurance protection is for a specific limited period of time. Once the period ends there are no death benefits or cash values. This type of life insurance is usually the least expensive on a year-by-year basis, with premiums gradually increasing each year.

Term Loan (Credit): A loan that is repaid over a specified period of time.

Time Value of Money: Is an essential principle of smart financial management that asserts money is worth more today than money received in the future due to the potential earning power of money. $100 invested today at 8% will grow to $108 in one year. At 8%, $100 received in one year is only worth $92.59 (divide $100 by 1.08). Due to money's potential to increase in value over time, you and your advisors can use the time value of money to calculate how much you need to invest and at what rate-of-return to reach certain future goals.

Testamentary Trust: A trust that is created by will upon the death of the person who made the will (the testator).

Treasury Bill: (T-Bill) A money-market security that represents liquid short-term government financing with maturities ranging from a few days to 52 weeks. Treasury Bills may be purchased free from the Federal Reserve Bank or for a small fee through financial institutions.

Treasury Bond: A negotiable debt issued by the federal government with a minimum face value of $1,000 and a maturity of 10 years or longer. Bonds and notes are purchased at auction or from the Federal Reserve Bank, commercial banks, or brokerage firms.

Treasury Note: Purchased the same way as treasury bonds, except they mature in two to 10 years. The minimum denomination for a treasury note is $5,000 for two or three year maturities, and $10,000 for maturities longer than three years.

Trust Accounts: Accounts that contain the assets of the trust.

Trust, Charitable (Immortality): A trust that is set up in your name to provide an ongoing benefit, such as a scholarship or to grant funds for future generations.

Trust, Charitable Remainder (CRT): A trust into which assets are contributed that provide a donor with an income-tax deduction and a beneficiary with income over a period of time, with the remaining principal going to charity.

Trust Fund: A fund held by one person (trustee) for the benefit of another, according to the provisions of a formal trust agreement.

Trust, Irrevocable: A trust in which the trustor does not retain the right to revoke or amend the trust.

Trust, Life Insurance (Wealth Replacement): A trust that is usually set up as an irrevocable trust for the purpose of receiving life insurance proceeds estate tax free.

Trust, Living (Inter vivos): A trust that is created while the grantor is alive.

Trust Officers: Officers in a trust company, such as a commercial bank.

Trustor/Grantor/Settlor: The individual who provides the assets used in setting up a trust.

Trust, Qualified Terminal Interest Property (QTIP): A trust created at death by a will or living trust which provides all of the income to the surviving spouse for life. Upon that survivor's death, assets go to beneficiaries previously designated by the first spouse who died. Properly set up, this trust will avoid any taxes on the estate of the first spouse, but will be included in and may be taxed as part of the estate of the surviving spouse.

Trust: A legal agreement designed to manage and control certain assets, held by the trustee for the benefit of others.

Trustee: The person, persons, or organization appointed by the trustor to manage the assets and distributions of the trust.

Trustor / Grantor / Settlor: The individual who provides the assets used in setting up a trust.
Unified Credit: The estate and gift tax system in the United States is “unified.” When computing the estate tax that may be due upon a person’s death, the IRS takes into consideration taxable gift transfers by the decedent during his/her lifetime.

Unified Credit (By-Pass) Trust: A trust created either through one’s will or a living trust that allows the unused portion of the unified credit to be placed in trust for a surviving spouse or other beneficiaries.

U.S. Government Savings Bonds: Savings certificates issued by the government. They are sold at less than their face value but may be cashed in for their full value after a specified length of time.

Value Stocks: An investment style of selecting companies that are considered currently to be undervalued.

Variable Annuity: A regular monthly payment that varies in amount based on the performance of the securities held in the insurance company’s portfolio. These annuities are covered by insurance company laws that shelter gains from current taxation. They carry more stock market risk than fixed annuities, but have a greater potential for appreciation.

Variable Life: Also a combination of term and whole life. It has a death benefit and cash values. Like universal life, this policy is flexible and allows you to adjust the allocation of premium payments between the death benefit and the cash values. Variable life policies offer additional flexibility by allowing you to invest cash values in various combinations of money market, stock or bond funds.

Venture Capital: Pre-publicly traded equity investment that has a limited market for trading.

Will: A legal document through which a person directs the disposition of his or her estate upon death.

Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it, or how that person donates it to help others.

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Thanks for your consideration and support. Wishing you all the very best,

Valentino Sabuco, CFP®, AEP®
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The Financial Awareness Foundation
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Office: 707.586.8620
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Have You Ever Heard Someone Say…

“Doesn’t the government provide for that?”  “Estate and financial planning is too complicated and expensive.”
“All my property is titled in joint tenancy with my spouse so I don’t need a will.”
“Estate and financial planning is only for the rich.”
“I’m too young to do estate or financial planning.”

The Financial Awareness Foundation is a 501(c)(3) nonprofit organization. We serve as a nonpolitical “financial awareness advocate” for the general public, the financial service, nonprofit, and educational professionals and their organizations, municipalities, and employers.

Our mission is to significantly help solve a major social problem dealing with the lack of financial awareness and financial literacy. We believe that teaching financial awareness, financial literacy and the essential principles to smart personal financial management are very important as this gives people the tools of empowerment to:

• Make better informed and productive everyday money decisions
• Save time and money with their financial advisors and service providers
• Have the best opportunities to reach and maintain their personal / family financial dreams
• Enjoy a financially secure debt free future
• Advance their philanthropy and legacy plans.

WE CAN’T DO THIS ALONE – WE NEED YOUR HELP!

Please consider making a ‘Tax-deductible Contribution’ to The Financial Awareness Foundation by completing and returning this page. Thank you for your consideration.

To learn more about us, link to www.TheFinancialAwarenessFoundation.org

Click here or go to http://home.thefinancialawarenessfoundation.org/donationgateway.html to make your tax deductible online contribution or enclosed a check payable to “The Financial Awareness Foundation” or complete the following credit card form.

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Call, email, or mail your generous contribution to us at:

The Financial Awareness Foundation
959 Golf Course Drive, #273
Rohnert Park ♦ Sonoma County ♦ CA 94928
707.586.8620 ♦ V.Sabuco@TheFinancialAwarenessFoundation.org

(v-011717)
Do you want more control over your finances and to feel more secure about your economic future? All the tools to accomplish this—and more—are right here in your hands.

The financial PARTNER could change your life. The financial PARTNER is more than just another source of financial information and advice. It is a complete personal financial management system—a clear step-by-step process designed to help organize your affairs and use the essential principles of smart financial management.

Don’t wait. Begin now to create your personal financial plan. Open this guidebook and learn how to make financial security and success yours.