



## FINANCIAL PLANNING MADE SIMPLE

Financial planning is not simple. It's complicated. At least it seems that way.

This article will try to make sense of what is really important in looking at your finances and try to give you some guidance in making sure you are on the right financial path.

In my opinion, there are seven major categories in dealing with your finances. They should be followed in this order:

1. Make or update your will, your medical and durable power of attorney, update your guardians and make a list of all your insurance policies and bank accounts and where they can be found.
2. Make sure you have the proper amount of health, life, disability and long term care insurance in force.
3. Open a money market account and have four months living expenses in it for emergencies.
4. Except for your home mortgage and auto loans, make a plan to get out of debt.
5. Start funding your retirement account to the max.
6. Start funding children's education.
7. Start saving for other goals. (Vacation home, retirement traveling, home remodeling, etc)

Where do you start? Sit down with pen and paper and make up a balance sheet. On one side list all of your assets. On the other side list all of your debt. The difference between your total assets and your total liabilities is your net worth. You will want to do this every year so you can compare how you are doing. You want your liabilities going down and you're net worth going up.

Many people find that if they start at number one above, they look down the list and they say that there is not enough money left over at the end of the month to do all those things. That may be true. But you do not have to do them all at once. You start at number one and you work your way down the list one item at a time until you get to the last item. It may take a long time, but you need to start somewhere.

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***Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses.***

***Dollar-cost-averaging does not assure a profit and does not protect against loss in declining markets. Such a plan involves continuous investment in securities regardless of the fluctuation of price levels of such securities. An investor should consider his or her financial ability to continue his or her purchases through periods of low price levels.***

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In order to free up money for insurance or for savings, you need to analyze how you currently spend money. Make up an income statement. Start with the money that comes in every month, write it down. Then, go through your check book and credit card statements and write down everything you spend money on. Total it up. The difference between what you bring in and what went out is what's left over for your future. However, look hard at the money going out. Is there a lot of waste? Can you cut back on some spending habits? You probably can. You won't know until you write it all down and ask yourself, which of these expenses are necessary and which are discretionary. This is where you will find the money to get your financial plans in order.

Let's look at the list one item at a time.

### **MAKE OR UPDATE YOUR WILL, ETC.**

You should update your will at least every five years or whenever there is a major change in your life such as a marriage, divorce, new baby or grand children, death of a loved one etc. The other item you should do whenever one of life's major events takes place is to review the beneficiaries on all of your retirement accounts and insurance policies. You do not want the wrong people listed as beneficiaries if something happens to you.

### **INSURANCE**

Make sure you have the right amount of insurance to meet your personal and family needs. You should get insurance in this order and you should have them all:

1. Health Insurance
2. Life Insurance
3. Disability Insurance
4. Long Term Care Insurance

You need health insurance in case you get sick.

You need life insurance in case you die. Life insurance consists of two components, immediate needs and long term needs. Immediate needs include paying for your funeral, estate expenses, paying off a mortgage and other debt and funding college education for children. Long term needs means replacing the income you no longer bring home for a certain number of years into the future. You should get assistance from a financial professional to properly calculate the appropriate amount and type of life insurance that fits your particular situation.

You need disability insurance in case you get temporarily or permanently disabled. Usually after age 65, disability insurance is not obtainable and no longer useful. Your chances of getting disabled are much higher than dying. A financial professional can help you determine the appropriate amount and cost of disability insurance.

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You need long term care insurance to protect your retirement assets and not be a burden on other family members as Medicare does not cover long term care expenses and family members have their own lives and troubles to deal with. If you are between the ages of 45 and 65, you should be seriously looking at long term care insurance. The longer you wait, the more chance you have of getting ill and the premiums will cost a lot more. A financial professional can help you find and tailor the appropriate options that fit your needs in a long term care policy. Once you get sick, it is very difficult to get this insurance.

## **EMERGENCY FUND**

Open a money market account and start saving until you have four to six months living expenses in it for emergencies. If an emergency comes up, replace the funds as soon as possible.

## **GET OUT OF DEBT**

Debt and the interest that goes with it are robbing your financial future away. Some debt is natural and difficult to avoid such as a home mortgage and auto loans. These are usually necessities and are normal. The debt that you want to get out of is credit card debt and personal loans. The sooner you get out of this kind of debt, the easier it will be to accomplish the other items on the list. There are specific ways to structure debt repayment so that it is paid off quickly, but it has to happen a certain way. Call us if you have lots of personal debt and we will be happy to show you how long it will take to pay the debt off by following a specific repayment structure.

## **RETIREMENT**

Most people today do not have enough money saved up to stop working and live the retirement life they would really like. As a matter of fact, retirement is changing. Our parents and grandparents thought of retirement as the day they would not have to go to work anymore and they could do whatever they wanted for their remaining days. That is changing. Individuals today are redefining what retirement means to them. It does not mean that you will stop working. It may mean, if I don't want to go to work today or this week I don't have to. What does retirement mean to you? If you haven't thought about it, you should. If you are self employed, you can probably work until the day you die, if you're capable. But if you're not self-employed, then realistically, working after the age of 75 is probably not practical, even if you wanted to. With major advances in medicine, it's possible you could live in to your eighties and nineties.

You probably do not have enough retirement assets saved up. Your goal is to max out your retirement contributions every year. It takes a long time to save up and have your nest egg compound. Starting and funding your retirement account comes before funding college education because of the time it takes to grow an appropriate retirement account. There are other ways to fund college education. If you save for college education before you fund your retirement account, there will not be enough time left in your working years to make up the time lost when you were investing for your children's education.

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The most important things to remember in long term investing are:

- A. Determine the appropriate asset allocation for you.
- B. Systematically save every month.
- C. Rebalance the account at least annually, more often if circumstances warrant.
- D. Never try to time the market.
- E. Do not chase the most newsworthy financial product for that year according to the media.
- F. Do not think in terms of risk or volatility. Think in terms of fluctuation. How much downward fluctuation in your portfolio are you willing to endure in the short term in order to pursue more upward fluctuation in your portfolio over the long term?
- G. Do not invest in securities unless you are prepared to stick with them for seven or more years.
- H. Get a financial advisor who will work with you in setting up the proper account. There is an array of products out there that will help you pursue and retain your income for retirement. In addition to investment accounts, there are insurance products, unit investment trusts, bank products etc. Your financial professional can help guide you in choosing the products that are appropriate for you.

## COLLEGE FUNDING

There are a number of ways to save for college. Some methods may allow your funds to grow tax advantaged and so long as the distributions from the account are used for education, they will not be taxable. The beneficiaries of the account can change so as children finish, they can be used for grandchildren, etc. There are many of these accounts around. Get a financial professional to help you find the account that is right for you.

## OTHER GOALS

Everyone has dreams of getting the things they have always wanted such as a vacation home, a new boat, a luxury car or that once in a life vacation. You should start saving for those things. Many people buy these things with debt. As we said before, too much debt and the interest that goes with it, will rob you of your financial future.

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I hope that you have found this discussion easier for you to review your financial situation. I have attached a check list at the end of this paper to help you get your financial picture in order.

I am a financial professional that can help you with all of these issues. I would like to be able to assist you in putting your financial house in order. Please call me at any time to set up an appointment to discuss any or all of these issues.

Thank you.

*Tom*

\*Thomas H Judge, EA, RFC

*\*Thomas Judge, Advisory Representative. Securities offered through H.D. Vest Investment Services SM, Member SIPC, Advisory Services offered through H.D. Vest Advisory Services SM, Non-bank subsidiaries of Wells Fargo & Company, 6333 North State Highway 161, Fourth Floor, Irving, TX 75038, (972) 870-6000*

*ABA-Accredited Business Accountant, ATP-Accredited Tax Preparer, ATA-Accredited Tax Advisor  
Accredited by the Accreditation Council for Accountancy and Taxation, Inc.*

*EA-Enrolled Agent*

*Enrolled to Practice before the Internal Revenue Service*

*CFS-Certified Fund Specialist*

*CSA-Certified Senior Advisor*

*RFC-Registered Financial Consultant*

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## ANNUAL FINANCIAL CHECKLIST

- Make or update your will, durable power of attorney and guardian list.
- Review beneficiaries on all life insurance policies and retirement accounts.
- Listed all my bank and retirement accounts and my insurance policies along with where they are located.
- Health insurance in place?
- Life insurance in place?
- Disability insurance in place?
- Long term care insurance in place?
- Have I paid off my credit card debt or do I have a plan to pay it off?
- Set up and funded emergency fund with 4 to 6 months living expenses.
- Set up and funding my retirement account. Goal is to fund to the maximum allowed.
- Set up and funding an education plan for children and/or grandchildren.
- Set up and funding for other personal goals.
- If your total net worth is more than two million dollars, discuss estate planning with your financial professional to plan for reducing or eliminating estate taxes which will hurt my family and beneficiaries.
- Completed annual balance sheet and compared to previous year.

Name: \_\_\_\_\_

Date: \_\_\_\_\_

*Century Business & Financial Services (SM)*

*Thomas H Judge*

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