Preliminary Considerations

Preliminary Considerations

Please read through this important document; although these items do not represent the focus of our planning engagement together, they are pertinent to your plan and to your future financial success in reaching your goals.

Cash Flow & Saving

- Create a workable family budget that will limit your spending (including taxes) to no more than 85% of your gross pay.
- 15% is a minimum savings goal; depending on your age, goals, and circumstances, this figure may need to be higher.
- Maintain a cash emergency reserve of between three and six months worth of living expenses (families with a sole income earner and/or those with highly variable earned incomes should be at the high end of the range).
- Insure that you have adequate and appropriate insurance coverage including health & medical, disability, life, homeowners or renters, long-term care, and personal and professional liability coverage.

Debt & Borrowing

- Pay off all non-mortgage consumer debt (ie, credit cards, car/boat loans); this debt represents non-deductible, usually high interest rate debt carried on either immediate expenses or depreciating assets.
- Pay off all future credit card charges in full each month.
- Maintain a minimum percentage of equity in your home commensurate with your age (example: at least 20% in your 20’s, 40% in your 40’s, etc).
- Structure your mortgage payment schedule so that your debt is paid off at (or before) your retirement date.
- Hold a fixed (not variable) mortgage unless you are certain you will be selling your home within a short time frame (in such cases, make sure your rate cannot be adjusted prior to your expected property sale date).
- Ensure that your rate and financing terms are suitable for your situation and optimal given the mortgage interest rate environment.
- I can refer you to a qualified mortgage professional for assistance in this area.

Saving & Investing

- Contribute to your company retirement plan(s): at a minimum, contribute the amount required to receive the full company match (if applicable) and contribute beyond the match amount up to the maximum allowable IRS employee deferral limit (if your cash flow allows).
- If your company retirement plan includes an employer match, do not “front-load” your salary deferrals, instead, spread them out evenly over the year so that you maximize the company match amount.
- Discuss the appropriateness of traditional IRAs, Roth IRAs, and college 529 plans with me to determine if they are a good fit for your goals and circumstances.
- Invest your additional cash flow in a taxable (ie, non-IRA, "after-tax") account to further fund retirement, college, and other long-term investing goals.

Risk Management -- Life Insurance

- Refer to the life insurance needs analysis section of your planning report for the amount of total recommended coverage; consider adding 10% to 25% to the highest future death benefit shown since term insurance is relatively inexpensive, the purchase of life insurance is often a one-time event, you may become uninsurable in the future, and the lengthy projection period causes significant uncertainty.
- I recommend level term insurance convertible to permanent throughout the entire term, issued by a top-rated and established carrier. Term insurance benefits do not increase with inflation, however, often (though not always) a person's economic need for life insurance declines with age (refer to the life insurance needs analysis section of your report for a projection of your future life insurance need).
- The length of term on your life insurance is critical; you should carry a term long enough to conservatively extend past the time when your children or other dependents will be out of the house and permanently providing for their own support, and also long enough so that you can be highly confident that your need for future earned income is gone (usually age 70).
- If replacing coverage, do NOT drop any existing policies until adequate replacement coverage is in place. I do not sell insurance. I can refer you to a qualified insurance professional to assist you in this area.

Risk Management -- Disability Insurance

- Generally, employer-provided disability coverage is inadequate to fully replace lost income in the event of disability.
- Employer-provided coverage also ends when the work relationship terminates and the cost of such insurance typically increases as you get older.
- Finally, since group disability insurance is usually paid for with before-tax dollars, future disability benefits you receive will likely be taxable, further decreasing the net benefit.
- For the above reasons, I recommend that you secure additional individual (ie, non-employer) coverage so that the total amount of your income benefit replacement is equal to your total earned income (including salary, bonus, commissions, and all other anticipated compensation), although as a practical matter, carriers are only likely to write coverage on a percentage less than the total of your earned income (in which case, secure as much coverage as you can).
- A person is much more likely to become disabled than they are to die prematurely, and when disabled, their living expenses remain (or increase) so disability coverage is of paramount importance.
- I have not been engaged to provide advice in this area and I do not sell insurance. I can refer you to a qualified insurance professional to assist you in this area.

Risk Management -- Long-term Care Insurance

- A long-term care need is a serious potential peril to an otherwise sound retirement and financial plan.
- Long-term care insurance (LTCi) is a potential solution to covering the cost of a future long-term care need; self-insuring is also a possibility for your consideration.
- LTCi premiums are expensive because the likelihood of a claim is high and the cost of care is and has been increasing faster than the general rate of inflation due to medical advances and increasing lifespans.
- LTCi premiums are more affordable the younger in life you are when you acquire the policy; long-term care premiums have increased dramatically in recent years because of historically bad actuarial assumptions-- Insurance industry observers are divided as to whether this trend has passed or if it will continue.
- Whether or not you secure LTCi, you should have a conscious and deliberate plan as to how you will cover a future long-term care need (insurance, drawing down your own financial resources, Medicaid, family member(s) providing care and/or financial support).
- I do not sell insurance. I can refer you to a qualified insurance professional to assist you in this area.

Risk Management -- Property & Casualty Insurance

- Consult with your property & casualty insurance agent at least annually to ensure that your homeowners, auto, and personal liability coverages are up to date, that they adequately value your real estate and personal property, and are appropriate for your circumstances.
- I recommend that all family members who drive are covered to the maximum liability limit that your auto insurance carrier will write and that you carry a personal umbrella liability policy in an amount at least equal to the total value of your financial and real property assets.

Income Taxes

- I have included tax-wise strategies in these recommendations as they relate to your investments and retirement plans. My investment recommendations include tax-efficient index funds which will help reduce your tax burden. Investment management and financial planning fees paid are not deductible on your tax return.
- I am not a CPA, and I do not prepare tax returns.
- Liquidating securities in taxable accounts may cause you to incur a significant tax liability. For this reason, I recommend that you consult your tax advisor prior to executing my recommendations regarding potential tax consequences as well as the proper course for reporting the transactions on your tax return.
- Please note: The IRS requires that you determine your realized gain or loss upon the sale of securities and that you pay any resulting tax liability as such income is earned (i.e., by the appropriate quarterly tax payment due date).

Estate Planning

- I am not qualified nor licensed to practice law, thus our discussion of your estate plan is designed merely to educate you on estate planning considerations.
- Regardless of your marital status, your age, or your financial circumstances, you should have a properly drafted and executed will (or living trust), durable power of attorney, physician's directive (living will), and letter of instruction.
- You should consult a qualified estate planning attorney to determine the appropriateness of your estate plan in light of any legal, tax, or situational changes that may occur.
- Beneficiary designations on your IRAs, retirement plans, pensions, insurance policies, and other non-probate assets should be reviewed (and coordinated with your attorney's instructions) to ensure the assets pass according to your wishes and in accordance with your estate plan. Do NOT leave beneficiary designations blank!
- Your will or living trust does NOT determine how non-probate assets are distributed upon your death. Your state of residence has a plan for you ("intestate laws" apply) and it probably isn't the plan you would choose for yourself.
- Certain account ownership forms including Joint Tenants with Rights of Survivorship (JTWROS), Transfer on Death (TOD), and Payable on Death (POD) supersede the terms of a properly executed estate plan. These forms of account titling, particularly when one of the owners is a minor or adult child, may undermine your intended estate planning wishes. Please consult your attorney regarding the proper titling of your accounts.