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A 10-Step Process for Financial Confidence

... without winning the lottery or being adopted by a Billionaire.

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How to Find the Right Financial Advisor For You!

Americans consistently recognize the need to plan for a secure financial future. What isn't so clear is how to do it.

Should debt be paid off before saving and investing. Is a Roth IRA the best investment vehicle? How much money is needed before seeking financial advice? Is it too late to get started?

While it's never too late to focus on your financial well-being, it's always better to start sooner. As the adages goes, failing to plan is planning to fail. But because everyone;s and every family's situation is different, the optimal solutions for each will be different.

The 10 steps of the financial planning process provide a comprehensive understanding of how to practically plan for your financial well-being now through the long-term. The process incorporates retirement planning, taxes, risk management, investments, and estate considerations which all must be optimized together.

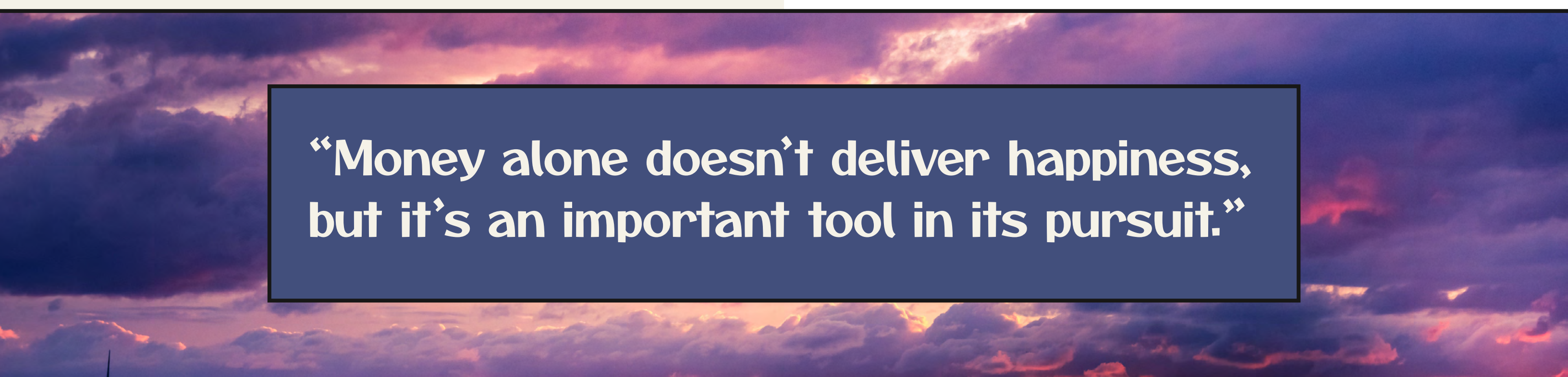
Money alone doesn't deliver happiness, but it is important tool in its pursuit. A comprehensive financial planning process can empower you to not just plan for a rich life, but to actually live one!

Step One: Understand that luck does not equal skill

Headlines on the news and social media highlight life's lottery winners who luck out with "get rich quick" ideas and schemes. Does anyone really plan for retirement by buying a lottery ticket? The stock market offers the same odds of success as a casino when speculating on investments over time.

Sometimes people get lucky! They bought Apple when the iPod was a vision in Steve Jobs' mind or Google before the word was a verb recognized by Webster. More likely, they just invested in a market where everything went up! (Hello RedHat in the late 90s!) Getting rich quickly is usually luck, not skill.

A sound financial plan entails repeatable skill - controlling all the variables you can control, and planning for those you cannot. Sometimes people without a smart financial strategy get lucky, but most just experience a volatile roller coaster. On which approach do you want to bet your financial livelihood?



Step Two: Envision your rich life

Everyone has their own vision for an amazing life. If you want to live off the grid in South Dakota, limited financial resources will be required.

Retiring early with a second home in Vail involves significantly more financial hurdles. What if you have no idea about your life vision? That's ok, too! Sometimes in life, building and maintaining flexibility IS the goal.

Think about your future in two ways: your principles for future decision making as well as specific goals already identified. There is an art and science involved in decision making.

Dollars and cents are a basic measurement for specific goals; but your principles provide the artistic canvas for decisions where the best choice sometimes isn't the most financially advantageous. Seriously, nobody would ever have a baby or go on a vacation if decisions were only based on financial upside.

> "What if you have no idea about your life vision? That's ok, too! Sometimes in life, building and maintaining flexibility IS the goal."

Examples of Principles

Deeper than basic goals, principles may carry a heavier weight than simple economics for decisions at many points throughout a financial plan.

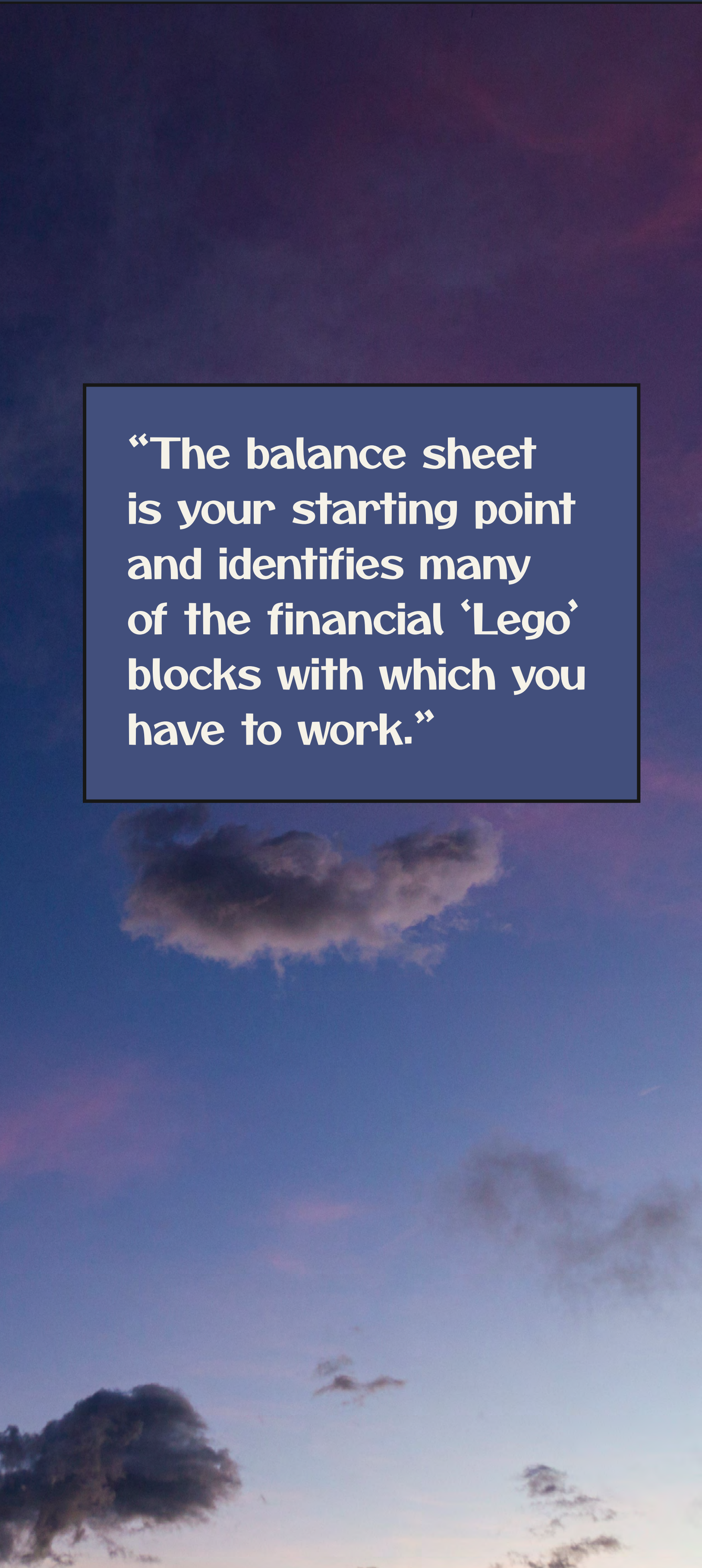
- Never sacrifice values for a paycheck
- Make the most of your time on this earth
- Seek adventure
- Prioritize stability and avoid worry
- Empower your children to learn and flourish
- Make the world a better place

Examples of Goals

Commonalities are found among families planning for the future; but, there's no limit to the creative ways to live a joyful life.

- Retire at 'x' age
- Experience a family vacation
- Pay for children's college
- Upgrade the old green Honda
- Buy a home (or second home)
- Travel cross country in an RV
- Retire early to Spain

Whether your goals involve specific objectives or the need to maintain flexibility, a financial plan is a dynamic framework for future decision making anchored in your values. Invest the time in figuring them out.



"The balance sheet is your starting point and identifies many of the financial 'Lego' blocks with which you have to work."

Step Three: Determine your financial starting point

Once your goals and principles are clear, establish your balance sheet. The balance sheet is your starting point and identifies many of the financial "Lego" blocks with which you have to work.

Assets

Inventory assets including cash, checking accounts, savings accounts, 401k, 4036, IRA, Roth IRA, etc. Label each asset with the owner(s), beneficiary, and type of holdings including whether it's liquid or illiquid.

Liabilities

Inventory liabilities including mortgage, credit cards, student loans, any type of debt owed. Label each liability with the owner(s), amount, interest rate, payment, and term. Also, note which asset the liability is attached to if applicable. For example, a mortgage would be connected to a house.

Net worth vs. liquid net worth

Your net worth = assets - liabilities and represents your wealth. Liquid net worth = assets - liabilities - illiquid assets (real estate, collectibles, etc), and represents your wealth as well as control over debt and cash flow. The distinction is important because liquid cash flow is necessary for daily living, and you can't put an ATM card in your house or Picasso painting to access cash for paying your bills.

Step Four: Control What You Can: Cash Flow

Cash flows, in and out, are additional financial Lego blocks, and are fortunately one of the areas you have significant control.

Income

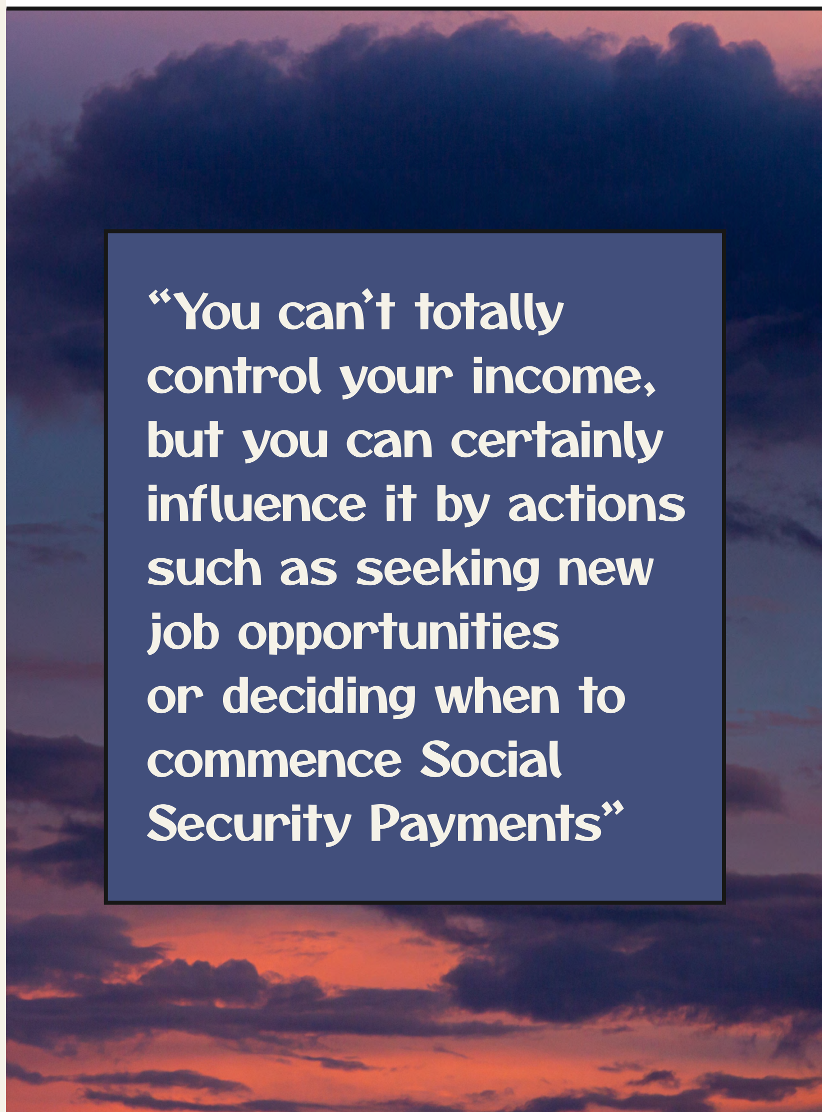
Calculate your family's income and identify each of the sources. Some are current sources including salary or rental income, and others are future sources such as a pension or social security. You can't totally control your income, but you can certainly influence it by actions such as seeking new job opportunities or deciding when to commence social security payments. Some income changes such as a job layoff are completely out of your control. Because of this reality, conservative assumptions for future income sources are prudent.

Expenses

The beauty of a budget is that it is completely in your control. And, considering that your expense management is the most significant variable in your long-term financial success, ensuring its accuracy is critical. Use a budgeting tool to determine current expenses and predict future expenses. Be warned that Amazon and Starbucks expenses tend to be dramatically underestimated in budget planning.

Invest the Difference

Once income and expenses are determined, the amount remaining is available to save and invest. If nothing is leftover for saving, you've got some work to do! The appropriate balance of saving for tomorrow vs spending for today will be determined by your previously outlined goals and principles. This is where the arithmetic reality will help you; future cash flow needs can be easily calculated dictating saving needs. There's no need to save every penny for retirement while living on a diet of hot dogs and ramen noodles..



Step Five: Control What You Can: Taxes[1]

Taxes are a reality, but don't pay more than necessary. Taxes are money leaving your pocket today, which also represents a loss of future potential investment earnings. Keeping money in your pocket now to earn interest over time offers tremendous value. But, there are trade-offs, and sometimes paying taxes today instead of deferring them to the future is a good thing. Determining the optimal balance is rarely considered in advance, so avoid this dilemma. Each of the following tools offer opportunity to manage your tax bill, either today or at some point in the future.

Qualified Plans

In IRS terms, 'qualified' has several implications and requirements, but for tax purposes, there is usually some type of preferred treatment, including deferral of tax payments. Further details follow in section six, but the key is that qualified accounts provide an opportunity to control how and when you pay some taxes.

Charity

Charitable contributions not only offer an opportunity to make a positive impact on cherished non-profits, they can also provide tax bill reductions by offsetting income. T here are many nuances which should be discussed with your CPA or tax advisor, but by timing charitable contributions or donating highly appreciated securities as opposed to cash, you can make a positive impact on your tax bill.

Small business ownership

Operating a small business has many challenges, but fortunately, the tax code was written to support business ownership with various tax incentives. Recognizing these opportunities demands strategic planning and prudent execution across all aspects of the business, so collaborating with experienced professionals is imperative.

Timing of tax payments

Deductions and deferrals are both tools for smart tax planning. However, many tax deferral strategies come with strings attached such as the rule preventing the use of qualified retirement funds until age 59.5. That's fine ... unless you need the funds before 59,5! In some situations, it might be advantageous to pay a tax bill today, so that funds are available at any age before retirement. Anticipating the timing of future funding needs should inform your savings and tax planning strategy.

Tax-free investments

Certain investments, such as municipal bonds, offer tax incentives to investors. While these securities have their own risk profile which must be considered in conjunction with an overall financial plan and investing strategy, municipal bonds can be an effective tool for tax planning.

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[1] 994 Group does not offer legal or tax advice. Please consult your CPA or tax advisor.

Step Six: Control What You Can: Manage Your Cashflow Timeline

Americans are hyper-focused on saving for retirement. Saving for retirement is important, but it's imperative to be mindful of your personal timeline for cash needs before retirement as well. There's a lot of life to live before 59.5, so prepare for goals such as college, a big home remodel, or early retirement that might occur before you can access retirement accounts. The tax code shouldn't dictate the timing for your most important life experiences Consider optimizing your savings across multiple types of accounts based upon your personal timeline.

Cash

This is just what is sounds like. Cash that is easily accessible for any expense at any time. An appropriate amount of cash should always be kept in a checking or savings account (not in the mattress!!!), to be used for immediate needs and emergency purposes. In addition to funding everyday expenses, your cash holding avoids the need to use credit cards with high interest costs if your refrigerator dies or the roof springs a leak.

Charity

These accounts are how you fund goals before you turn 59.5. The bucket account is funded with after-tax money and will be subject to tax on investment gains. It can be invested similarly to a retirement account, but investing more conservatively is prudent if the The key is that the money may be accessed at any time without an IRS imposed penalty for early withdrawal.

Qualified accounts

These accounts represent the alphabet soup of retirement. IRA, 401k, 4036, 457, etc. There is a tax advantage to this account in the form of deferral up front and/or along the way. Eventually, taxes will be due on the account upon distribution of the funds, and there are additional strings attached: the money can't be accessed before age 59.5 without an additional 10% penalty and distributions are required starting at age 72*. There are exceptions, but all involve major duress.

ROTI-I IRA is a blend

Technically not a qualified account, a Roth IRA is funded with after-tax deposits and benefits from a tax deferral on the gains as it grows over time. Because the account is funded with money that has already been taxed, the IRS does not require you to remove it which means it ban be invested for the extra long term - even for the next generation.

*Age for required minimum distributions varies based on the year in which you were born.

Step Seven: Control What You Can: Risk Management

Insurance is a practical risk management tool that should be used to mitigate specific risks. Life's risks are infinite, but trying to insure them all is expensive and unnecessary. Rather, a prudent evaluation of your and your family's specific risks should be conducted, and then a customized approach should be implemented. Like the proverbial hammer which sees everything as a nail, be wary of recommendations to solve several of life's risks and opportunities with a single insurance policy. Instead focus on your specific singular risks across the big three to develop a plan: premature death, health and well-being, and financial liability.

Premature Death

Life insurance has many forms and functions. Whole life. Term life. Universal life. Variable life. Variable universal life.[2] Riders.[3] Evaluate life insurance needs based on your specific circumstances such as family debt and future income needs, and then review product options to see which one best addresses them.

Health and well-being

The cost of health-related care extends beyond basic medical insurance to expenses such as long-term care, assisted living, and even specific disease management such as cancer or kidney failure. Consider the rising costs of health care, especially if you are retiring before qualifying for Medicare, when planning for your future health and well-being. Your ability to cover these costs out of pocket, and the impact on your family by doing so are important considerations to make sure you're not one health crisis away from financial doom.

Liability

Home, auto, profession-specific, and broad umbrella coverage are all critical for prudent financial planning. Car wrecks, dog bites, and other accidents are a part of life. Again, a prudent evaluation of your specific needs should be conducted along with a strategy to address them.

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[2] Please consider the investment objectives, risks, charges, expenses, and your need for death-benefit coverage carefully before investing. The prospectus, which contains this and other information about the variable life policy and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The investment return and principal value of the variable life policy are not guaranteed. Variable life sub-accounts fluctuate with changes in market conditions. The principal may be worth more or less than the original amount invested when the policy is surrendered. Any guarantees offered are backed by the financial strength of the insurance company.

[3] Riders are available for an additional fee - some riders may not be available in all States.

Step Eight: Control What You Can: Estate Plan[4]

This falls in the category of important, not urgent... until it's 'on fire' urgent. You don't want to deal with administrative matters in the middle of trauma, nor do you want your loved ones to experience that burden. Remember that your estate plan should have multiple components-a simple will doesn't cover everything! An estate plan encompasses living components, death components, tax implications, and practical aspects.

Living

Who is going to act on your behalf in medical, financial, or other situations in which you are unable to make or implement certain decisions? Even if you're married, there may be instances when a back-up to your spouse is needed. Bills can pile up, and decisions can linger resulting in significant costs and other repercussions. Prepare in advance for issues which may arise while you are still living but incapacitated which requires documentation separate from directives which are implemented upon death.

Death

Ensure your wishes are implemented upon death, including transference of assets and personal belongings. Given family circumstances, it's common to gift assets with restrictions such as an age requirement or the need for a trustee to oversee delivery. Wills and Revocable Trusts are commonly used to preserve flexibility and limit or avoid probate. Irrevocable trusts are another tool for passing your estate to heirs, but offer very limited, if any, flexibility for future changes. Your goals, wishes, and family situation will inform the best strategy for estate planning, and an experienced estate planning attorney can develop the necessary legal documents. Note: it's critical to work with an estate planning attorney licensed in the state in which you are domiciled as state laws regarding estate transfer and taxation can vary widely! This means, if you move to another state, your estate plan needs to be updated!!

Taxes

Death and taxes are the only guarantees in life, so it's not surprising that taxes can be an issue even upon your death. The estate tax, in particular, is a regular topic of politicized concern and debate. As of year-end 2020, the exclusion per person is $11.2 million. For a couple, that's $22.4 million, so not exactly an issue for the average American, although current rhetoric suggests a likely reduction. Yet even an estate that isn't subject to the federal estate tax may still carry embedded gains, IRAs with required minimum distributions for recipients, state taxes, etc. Various strategies, including life insurance, may mitigate an estate's tax bill, so planning in advance is sensible. Also, remember estate taxes can be avoided by simply spending your hard-earned money while you're still alive!

Practical considerations

An estate plan that has never been implemented or can't be found at the time of passing is worthless. Once your estate plan is prepared, ensure that beneficiaries are updated, and the plan is fully implemented. Also, make sure that the executor or other trusted partner has a copy or access to the documents. Further, ensure that important documents such as life insurance policies and financial accounts can be readily accessed. Preparing a consolidated inventory of important accounts, information, and key contacts for your executor will dramatically ease the burden of resolving final business on your behalf.

[4] 994 Group does not provide legal advice. Please consult your attorney or legal professional.

Step Nine: Embrace What You Cannot Control: Capital Markets

There are speculators and investors seeking to earn a return on stocks and bonds. Recalling the reality of skill vs. luck, academia has demonstrated that investors, those who buy and hold securities outperform over time as opposed to speculators who get lucky from time to time. Here are a few considerations for investors as it relates to capital markets:

Adopt an enduring philosophy

Capital markets involve risk. Markets go up and down. Adopt an approach you can stick to in good times and bad times to avoid the mistake of selling at exactly the wrong time.

Index vs. active

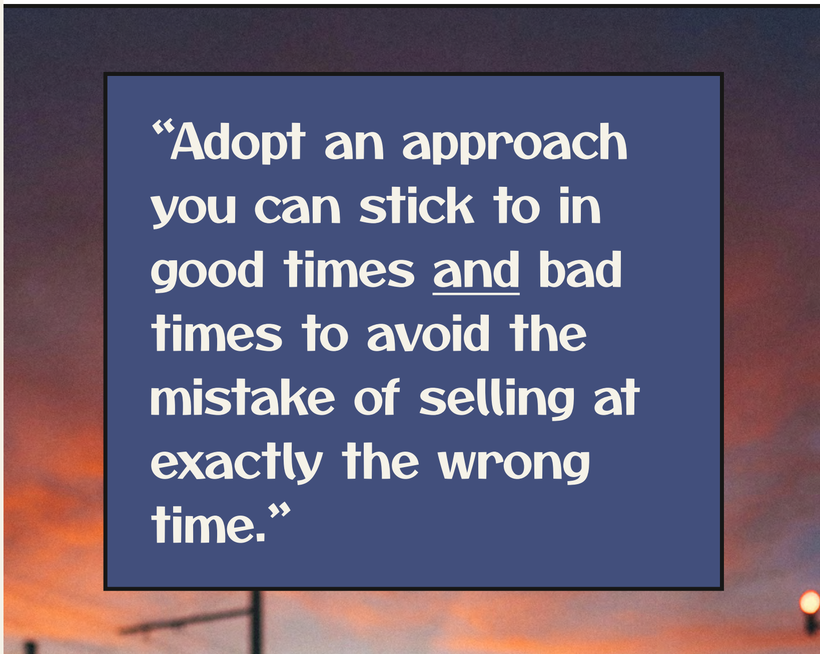
Investments range across a spectrum of passive to active. Data has repeatedly shown that timing the market and making speculative bets on concentrated investments causes more harm than good over the long-term. Wherever you fall on the spectrum of active vs. passive, ensure your portfolio is appropriately diversified, and that your financial plan can withstand both the upside and downside of outcomes.

Real estate in an asset class

Investors typically have a large portion of their net worth tied up in their home, so remember that your home is not an ATM machine. Be sure to include your real estate in your investment allocation - otherwise, opportunities to monetize your largest asset may be missed.

Liquidity

Don't forget about your liquid net worth, which was previously addressed. Various investments have a wide range of liquidity access from daily to years. Cash -Flow needs should be considered when developing your investment strategy and allocation. Millionaires file for bankruptcy every day because they don't have the liquidity to support their balance sheet.



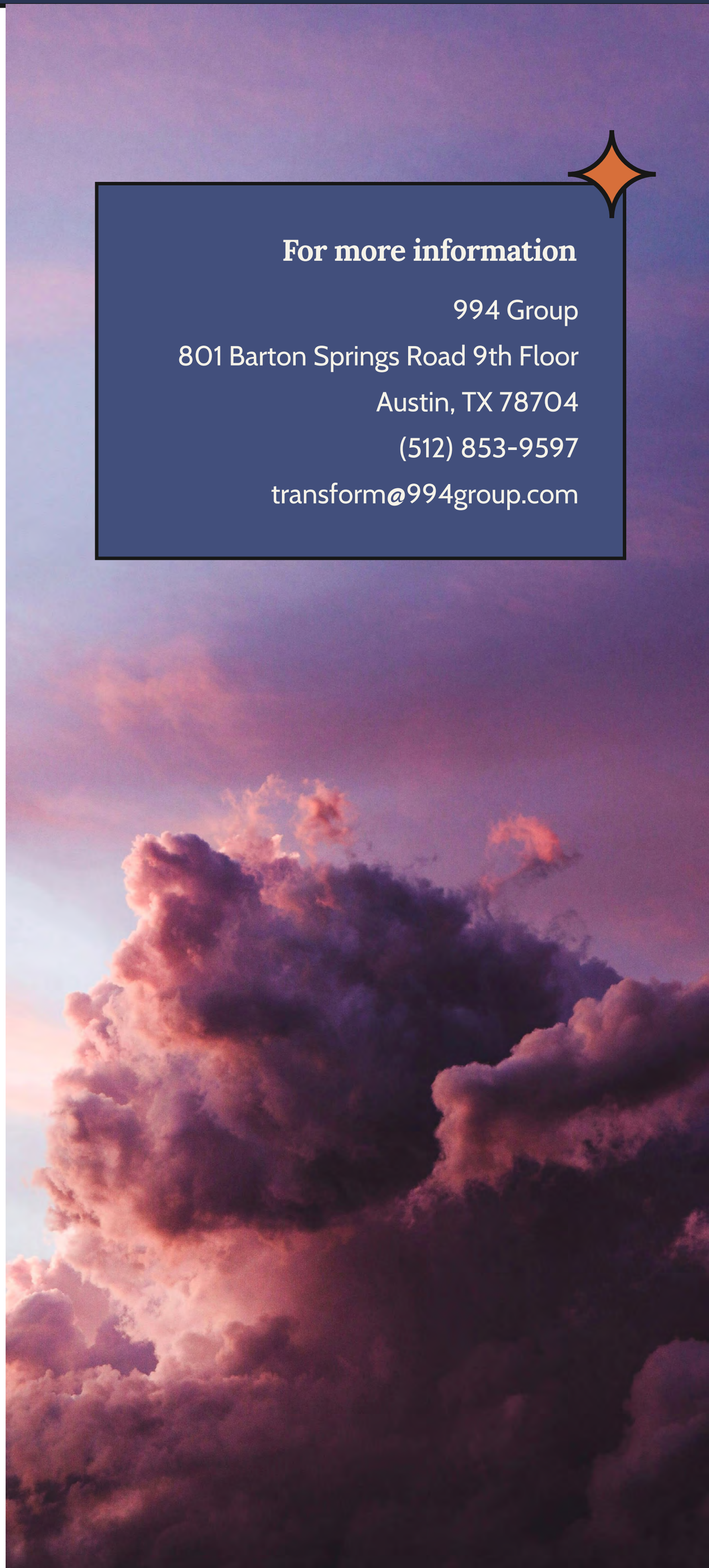
"Adopt an approach you can stick to in good times and bad times to avoid the mistake of selling at exactly the wrong time."

Step Ten: Engage in the Process

Life is dynamic! As soon as your initial financial plan is developed, the world will turn, and your life will evolve. Creating an initial financial plan and never updating it is like going to the gym once and never returning. You feel really good for one day, but then nothing happens, and your long-term goals languish.

Alternately, engaging in the process over time allows the plan to flex and expand to your evolving family and needs. A talented financial planner can also guide you through proactive planning initiatives which can take several years to implement, so staying involved is imperative.

And, while singles and couples need to evaluate similar opportunities and decisions, this process facilitates critical conversations for couples regarding individual visions and ultimately shared plans for a joyful life.



For more information

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