Personal Finance Cheat Sheet

An easy guide to help you navigate your financial future.

Goal Setting:

Whether your personal financial goals are to start a family, pay down student debt, retire early or buy a home, your main financial goal is to grow your **Net Worth** and manage your **Cash Flow.**

Net Worth = Assets – Liabilities

Cash Flow = Income – Expenses

Tip: Write down your financial goals. When doing so, consider how much money you will need, when you need the money and how important one goal is relative to other financial goals. Also, keep in mind the amount of risk you are willing to tolerate to achieve your goal.

Cash Management:

Get Organized! Prepare a **budget** and determine if you are you running a cash flow surplus or deficit.

Income > Expenses = CF Surplus

Income < Expenses = CF Deficit

While budgets can be time consuming, they will help you understand your current **lifestyle** and create a sustainable structure for your finances and long-term goals.

Surplus = Savings = Increasing Net Worth

Tip: If you find that tracking your spending is too time consuming, after you have trained yourself to spend wisely, you can consider the following guideline: **60%** of your gross income can be dedicated to fixed expenses (i.e. food, bills, all taxes) while **40%** can be dedicated to savings and discretionary spending (fun money).

Build a Cash Reserve: As a rule of thumb, consider keeping **3-6 months of living expenses as cash** or cash equivalents for emergency and/or opportunity. This way, you don't need to tap savings earmarked for other financial goals when an unexpected expense or opportunity comes your way.

Insurance:

Insurance is a common tool used to help transfer significant risks such as premature death or disability, which could impede achieving one's personal financial goals.

- Life Insurance – provides a death benefit in the event of premature death of a spouse or significant other.
- Disability Insurance – provides income in the event of full or partial disability.

Tip: When buying insurance, first decide how much you need, for how long, and what you can afford to pay.

Rules of Thumb: How Much Life Insurance Do I Buy?

- Some people like using a calculation that allows their family to use the lump sum insurance benefit to create income indefinitely. One rule of thumb is the **4% rule**, which means that you buy enough insurance so that your family could live off 4% of the policy's death benefit each year.

- Another approach is to add up all the expenses you expect your family to need to cover for a set period of time.

Tip: When shopping for life insurance, there are many types of life insurance products to consider, including term and permanent insurance. Consider working with a financial professional to help determine which product is right for you given your needs and affordability.

Protecting Your Income: Outside of family and loved ones, many consider their ability to earn income to be their most important asset.

- If long-term disability benefits are not offered through your place of employment, consider the benefits of owning an individual disability insurance policy. Policies such as these could provide between up to 60-70% of your earned income, up to age 65 and, in some cases, longer.

Tax Planning:

Taxation planning considers the taxation implications of individual, investment, or business decisions, usually with the goal of minimizing tax liability.

- This is often achieved by reducing taxable income through income deferral and income shifting.
- Other strategies for reducing taxable income include:
  - Deduction planning
  - Investment tax planning
  - Year-end planning strategies

Investment Tax Planning

- This involves evaluating how to best position assets in order to minimize the amount of taxes you have to pay on an ongoing basis.
- Requires year-round planning.
- Begins with an in-depth understanding of the tax implications of various investments and investment strategies.

Common Tax Planning Mistakes

- Waiting until the end of the year to begin tax planning.
- Ignoring the impact of the federal Alternative Minimum Tax on your financial decisions.
- Not taking advantage of tax-deferred or tax-free investments.
- Ignoring the tax implications of life changes, such as the birth of a child, marriage, divorce, selling a home or business, etc.
- Overlooking the tax-lowering impact of charitable gifts.
- Not understanding the tax savings opportunities under new tax laws.
- Not maximizing the potential tax advantages afforded by retirement plans.
- Selling property without taking into consideration the capital gain impact.

Tip: Even if you delegate filing your taxes to your accountant or tax professional, knowing the decisions that can affect your tax liability will allow you to take the greatest possible advantage of permissible tax savings.

Investments:

Once your financial goals, needs and attitudes have been determined, your assets can be distributed among a variety of investment categories.

Asset Allocation: Helps build a disciplined, long-term financial strategy for distributing wealth among various investment categories (stocks, bonds, money markets, real estate, etc.) based on your investment goals, time horizon and risk tolerance. By spreading your investments over various asset classes (such as large-, mid- and small-cap stocks; emerging markets; international equities and various bonds), also known as diversification, asset allocation attempts to reduce overall investment risk, create more reliable investment returns, and improve the risk/return tradeoff of your portfolio.

Investment Selection: Once an asset allocation approach has been determined, one typically implements the plan through the selection of specific investment vehicles to fill each asset class. Depending on the portfolio type and risk tolerance, a combination of investments will help an investor pursue their long-term financial objectives. Choices of securities for an investment portfolio may include basic securities and alternative investments.

Basic (Traditional) Securities: May include Stocks, Bonds, Mutual Funds, Annuities, Stock Options and Managed Accounts

Alternative Investments: May include Real Estate Investment Trusts, Oil and Gas Programs, Managed Futures and Hedge Funds. **Note:** Some potential benefits of alternative investments may include historically low correlation to traditional markets, greater diversification and other potential benefits.

Tip: Whether you are investing for retirement**,** college, or another financial goal, you are faced with the task of quantifying your goal, developing an asset allocation strategy and choosing the most appropriate investment vehicles. In the midst of this complexity, financial professionals are able to partner with you to help you to pursue your financial goals.

Retirement Planning:

Retirement planning is the process of evaluating your current financial situation and creating an accumulation and distribution strategy to help support a desired lifestyle after your working years.

Why You Need to Plan For Retirement:

1. Retirement is typically the longest life event you will ever face, and it generally dominates other financial goals.
2. Average life expectancy in the U.S. for males is 74.8 years and 80.1 years for females.
3. Increased longevity means that your retirement years can span decades.

Retirement Savings

Qualified Plans: Include employer-sponsored plans, such as 401(k)s and pension plans, governed by the Employee Retirement Income and Security Act of 1974 and years of continuous legislation.

- Plans allow for pretax investments that grow tax-deferred.
- Plans also have contribution limits and strict distribution rules.
  - **Types of qualified plans include**: 401(k), Nonprofit 403(b)s/457s, Defined benefit plans and ESOPs

IRAs: Help you save for retirement while allowing you to take advantage of favorable tax incentives. IRAs are inexpensive as well as easy to establish and maintain. Many people use IRAs to consolidate retirement assets that were previously held in employer-sponsored plans.

- **Types of IRAs include**: Traditional/Rollover IRAs, Roth IRAs, SEPs and SIMPLEs, Spousal IRAs, “Stretch” IRAs

2014 Contribution Limits

401(k) – Employee	$17,500
Traditional IRA	$5,500
Roth IRA	$5,500
SEP IRA / Solo 401(k)	$52,000
IRA Catch-up	$1,000
401(k) Catch-Up	$5,500

*Age 50 and older

Estate Planning:

Estate planning is usually defined as the process of anticipating and arranging for the disposal of an estate during your life. However, this definition can be expanded to handle critical life decisions in the event of an emergency, such as appointing someone to make medical or financial decisions for you should you be unable to make them for yourself.

Do I Really Need to Worry About This Now?

Probably. Having basic estate planning documents in place is something definitely worth considering, especially if you are married or have children. The following documents are typically used to help individuals plan for the unknown:

A Will – is a method many people use to transfer assets upon death. This document answers the question, “Where does my stuff go?”

Heath Care Directive – is a specific form that lists your healthcare preferences and is used at a time when you cannot communicate your wishes. It also lists the people who can make healthcare related decisions on your behalf.

Power of Attorney – is a document that appoints a person you trust to handle your finances. This form could be very important should you become unable to do this yourself.

Guardianship Provisions – ensure that your children are cared-for in the event of death. These instructions typically require specific language to ensure that your children are both cared for and that they properly inherit property specified under your will.

Tip: Consider seeking the advice of an estate planning attorney to assist with drafting these documents. Due to the gravity and sensitivity surrounding these matters, it could be ill advised to use boilerplate estate planning documents and taking the “do-it-yourself” approach. The costs of dealing with an invalid, or poorly designed, estate planning document could significantly outweigh the costs of hiring a legal professional.