

An Introduction to Financial Planning

What is Financial Planning?

- ❖ The essence of financial planning is ...
ORGANIZING, FORECASTING, and **ENHANCING** your finances.
- ❖ This illuminates where you are **TODAY** ...
relative to where you want to be **TOMORROW**.
- ❖ It also allows us to make recommendations on what you can do now to ensure that you **REMAIN FINANCIALLY SECURE FOR THE REST OF YOUR LIFE**, no matter what happens down the road.
- ❖ A good financial plan will help you **BUILD CONFIDENCE IN YOUR FUTURE** and enable you to **LIVE YOUR BEST LIFE**.

The Planning Process – Overview

A variety of research studies confirm the *un-surprising* conclusion, that those who develop plans are more likely to achieve their goals.

But many people are unclear about what exactly a financial plan is, and how to go about developing one. The following outline illustrates the basic process we follow at Savvy to help you develop a comprehensive personalized financial plan.

Key Elements of the Planning Process

1. **Begin** – Begin planning, intro to the process, discuss goals, data collection
 2. **Organize** – Organize data, build Balance Sheet & Cash Flow statement
 3. **Forecast** – Financial forecasts for key scenarios, risks & opportunities analysis
 4. **Investments** – Investments & tax planning
 5. **Estate** – LTC & estate planning
 6. **Implementation & Tracking** – Implement as appropriate, review regularly
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The Planning Process – Step by Step

1. Begin – Planning begins with a discussion of your goals and concerns. Goals might include such as ...

- Organizing your personal finances and clarifying your goals.
- Evaluating your current financial position and planning for the future.
- Planning for specific goals – buying a home, children's education, retirement.
- Developing and evolving a suitable savings and investment plan.
- Learning how to better understand and manage your finances.

2. Organize – The second essential step is organizing your finances by building your personalized Balance Sheet and Cash Flow Statement.

Balance Sheet – This is a complete inventory of the total of all your assets, balanced against all of your liabilities.

Cash Flow Statement – This is a complete listing of all of your regular income, and all of your regular expenses.

** All financial documents herein represent fictitious client examples.*

Financial Balance Sheet | Jack & Ann Goodlife

June 30, 2019

FINANCIAL ASSETS	Ownership	Cash Assets	Equity Assets	Total Value	Taxable Gain	As of Date	Equity%
BofA Checking	Joint	\$6,800		\$6,800	\$0	05/31/19	0%
BofA Savings	Joint	\$12,400		\$12,400	\$0	05/31/19	0%
Joint TD Ameritrade - Taxable	Joint	\$105,000	\$104,000	\$209,000	\$24,000	06/30/19	50%
Jack TD Ameritrade - Roth IRA	Jack	\$16,800	\$39,200	\$56,000	\$0	06/30/19	70%
Ann TD Ameritrade - Roth IRA	Ann	\$9,900	\$23,100	\$33,000	\$0	06/30/19	70%
Jack Fidelity - 401k	Jack	\$128,000	\$154,000	\$282,000	\$282,000	06/30/19	55%
Ann Fidelity - 401k	Ann	\$61,000	\$61,000	\$122,000	\$122,000	03/31/19	50%
Whole Life Insurance CV	Jack	\$9,700		\$9,700	\$3,100	05/31/19	0%
Inheritance Anticipated (Approx \$)	Jack	\$150,000		\$150,000	\$150,000	06/30/19	0%
Total Financial Assets		\$499,600	\$381,300	\$880,900			43%

TANGIBLE ASSETS	Ownership	Cash Assets	Equity Assets	Total Value	Taxable Gain	As of Date	Equity%
Auto - 2018 Acura RDX	Joint	\$26,000		\$26,000			
Primary Home			\$650,000	\$650,000			
Total Tangible Assets		\$26,000	\$650,000	\$676,000			

Total Assets (Financial & Tangible)		\$499,600	\$1,031,300	\$1,556,900			
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LIABILITIES	Ownership	Cash Assets	Equity Assets	Total Value	Taxable Gain	As of Date	Equity%
Mortgage	Joint		(\$190,188)	(\$190,188)		06/30/19	
Auto Loan	Ann	(\$22,000)		(\$22,000)		05/31/19	
Capital One Visa	Jack	(\$9,500)		(\$9,500)		06/30/19	
Total Liabilities		(\$31,500)	(\$190,188)	(\$221,688)			

TOTAL NET WORTH (Assets – Liabilities)				\$1,335,212			
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Personal Cash Flow Statement | Jack & Ann Goodlife

June 30, 2019

Early Retirement (ages 60/58) Late Retirement (both age 70)

INCOME – Cash IN-FLOWS	Monthly	2019	2,025	2037
Salary – Jack	6,250	75,000	0	0
Salary – Ann	6,750	81,000	0	0
Social Security – Jack			0	23,760
Social Security – Ann			0	31,680
Pension – Jack			38,000	38,000
Investment Income	833	10,000	25,000	25,000
Total Regular Income	13,833	166,000	63,000	118,440

EXPENSES – Cash OUT-FLOWS	Monthly	2019	2,025	2037
General expenses (from worksheet)	5,500	66,000	68,100	62,100
Income Taxes	2,205	26,460	11,340	21,319
FICA/Medicare Taxes (@7.65%)	995	11,934	0	0
Home Rent/Mortgage	1,852	22,224	22,224	0
Property Tax & Home Insurance	508	6,100	6,100	6,100
Travel Expenses	0	0	12,000	0
Total Expenses	11,060	132,718	119,764	89,519

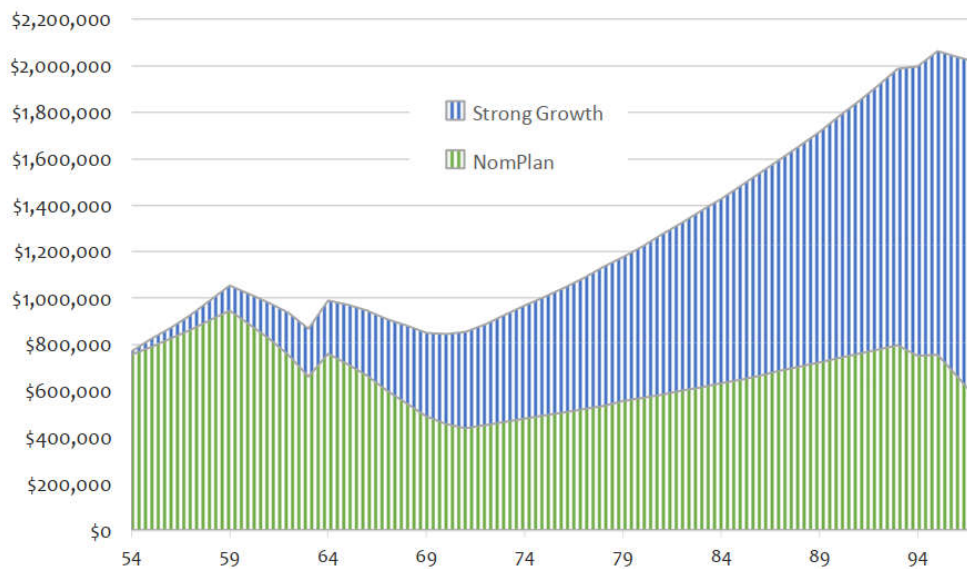
SAVINGS	Monthly	2019	2,025	2037
Contribution to 401k – Ann	1,583	19,000	0	0
Contribution to Roth IRA – Jack	583	7,000	0	0
Contribution to Taxable Savings**	600	7,200	0	0
Total Savings	2,767	33,200	0	0

NET CASH FLOWS	Monthly	2019	2,025	2037
Total Regular Income	13,833	166,000	63,000	118,440
Less Total Expenses + Savings	13,827	165,918	119,764	89,519
= Net Cash Flow / Portfolio Impact	7	82	(56,764)	28,921

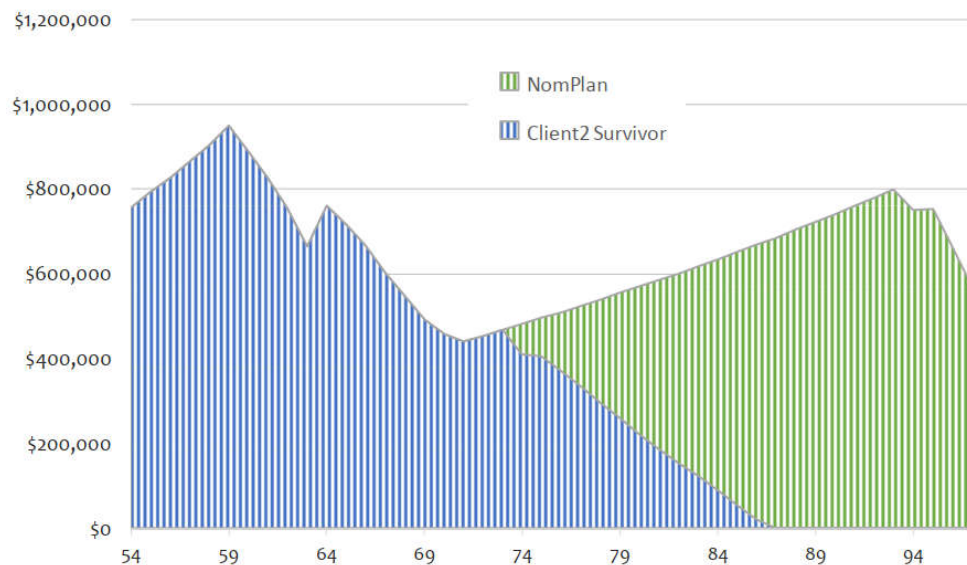
3. Forecast – Forecasting your financial future is a key aspect of your plan. Once we have organized your financial data, we input the data into our financial analysis program, where we can then forecast an estimate of your financial future. And better yet, we can forecast a variety of alternative futures. This can help answer questions like ...

- What if you retire earlier or later?
- What if the markets perform well or perform poorly?
- What if you spend a little more or a little less?
- What if one or the other of a couple were to pass prematurely?

Strong Growth Vs Weak Growth Scenarios



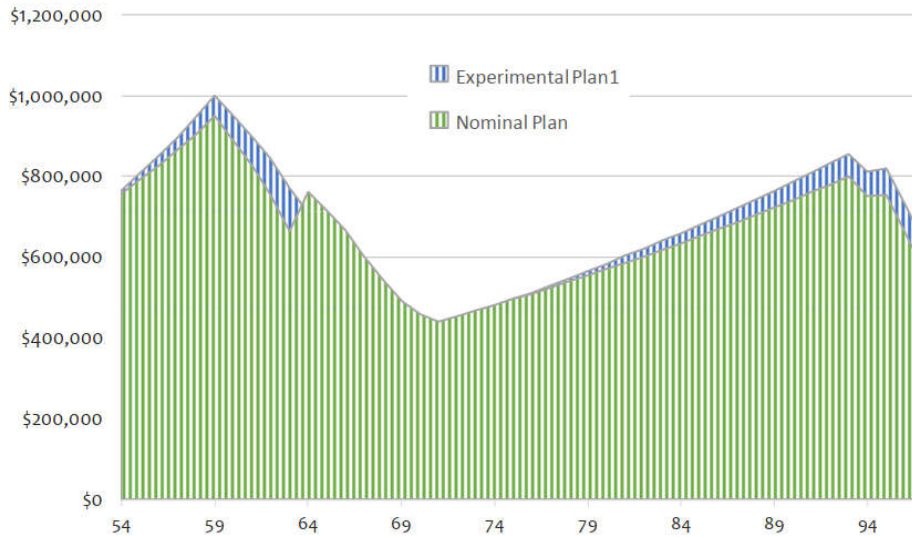
Ann Survives Jack Vs Nominal Plan Scenario



Personal Financial Planning Account – Moreover, once we have entered your data into the program, we will setup a personal financial planning account where you can view your plan and experiment yourself with a wide range of planning variables.

Experimental Scenario Vs Nominal Plan

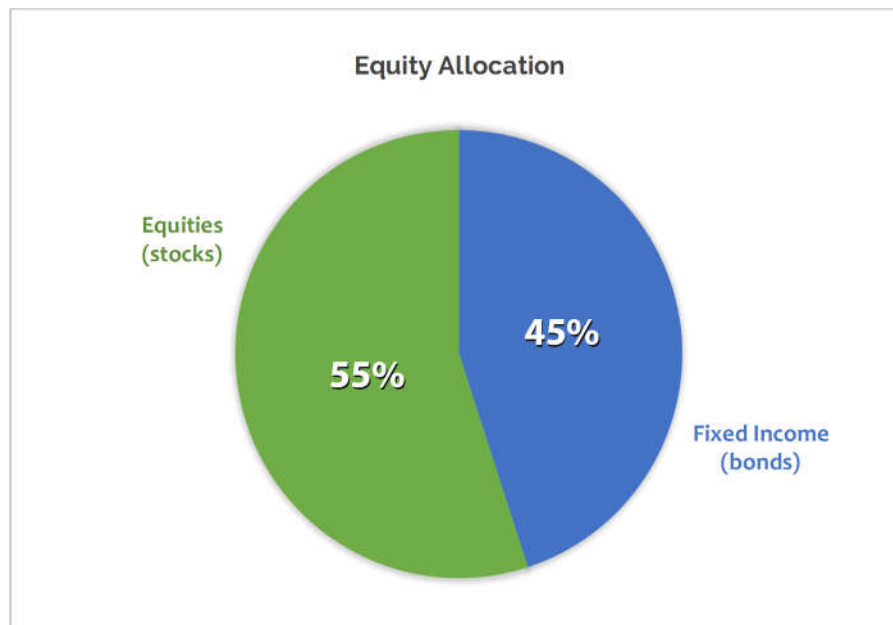
(Lost Inheritance with increased savings and reduced expenses to compensate)



Financial goals	Experimen...	Nominal Plan	Strategies	Experimental Plan1	Nominal Plan
Jack's planning horizon	95	95	Asset allocation	Savvy - 3% Real Growth	Savvy - 3% Real G...
Jack's LTC cost	\$ 75,000	\$ 75,000	Social Security	Current strategy	Current strategy
Jack's LTC duration	2	2	Property and relocation		
Jack's retirement age	60	60	Edit Refresh		
Ann's planning horizon	95	95			
Ann's LTC cost	\$ 75,000	\$ 75,000			
Ann's LTC duration	2	2			
Ann's retirement age	58	58			
Retirement Monthly Expense	\$ 5,300	\$ 5,500			
Income, savings and expenses					
Jack's Inheritance - 2029	\$ 0	\$ 150,000			
Ann's 401(k)	\$ 25,000	\$ 19,000			
Jack Roth IRA	\$ 7,000	\$ 7,000			
Pre-retirement Living Expe...	\$ 5,000	\$ 5,500			
Jack Early Retirement Heal...	\$ 500	\$ 500			
Travel Expenses	\$ 500	\$ 1,000			
Ann's Early Retirement He...	\$ 500	\$ 500			
Jack's Retirement Healthcare	\$ 300	\$ 300			
Ann's Retirement Healthcare	\$ 300	\$ 300			

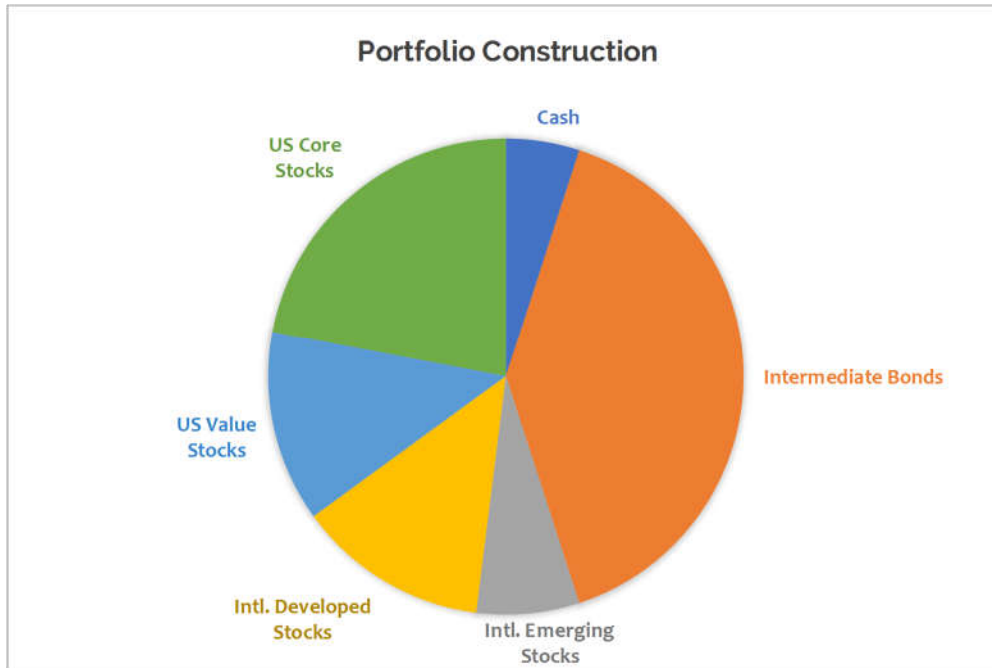
4. Investments – Saving, Investing, and tax planning are also essential to your long term financial success.

Equity Allocation – First comes the all-important equity allocation decision. This crucial decision – on how much of your portfolio to allocate to equities (stocks) versus fixed income (bonds & cash) – is the primary determinant of both your investment risk and your portfolio returns. Your personal equity allocation is based on several factors, such as your time horizon, your current financial situation, your comfort with taking risk, and the state of the markets.



Separate Investment Management Services – Savvy also provides comprehensive Investment Management as a separate service. Investment management services begin with your basic equity allocation, then recommends an appropriate mix of specific funds, designed to reduce risk and volatility, while seeking to maximize risk-adjusted long-term returns. Investment management services also include a broader array of allocation strategies and recommendations, as well as ongoing monitoring, adjustment, and rebalancing services. Please see our Investment Management page for further details.

Alternatively, if you prefer a purely passive approach to investing, we would also be happy to offer recommendations on a basic set of diversified ETFs (Exchange Traded Funds) that could be bought and held indefinitely.



Tax Planning – Taxes matter. You can't have an efficient savings and investment plan without building tax considerations in from the ground up. This includes making best use of every available tax preferred savings plan – 401k, 403b, IRA, Roth IRA, HSA, etc. It also includes careful planning for future investment distributions. We can help you review the range of tax preferred savings plans to decide which plans are most effective for your personal situation. We can also estimate future taxes on a year by year basis to help build long term tax efficiency into the foundations of your plan. Utilizing the most appropriate savings plans, and managing both your savings and distribution strategies efficiently can yield significant net returns.

Sample future tax estimate

Form 1040 Department of the Treasury—Internal Revenue Service (99)		2027		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	0
2a	Tax-exempt interest	2a	0	b	Taxable interest
3a	Qualified dividends	3a	267	b	Ordinary dividends
4a	IRAs, pensions, and annuities	4a		b	Taxable amount
5a	Social security benefits	5a	0	b	Taxable amount
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22			6	82,831
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	82,831
8	Standard deduction or itemized deductions (from Schedule A)			8	13,000
9	Qualified business income deduction (see instructions)			9	8,300
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10	61,531
11	a Tax (see inst.) <u>7,361</u> (check if any from: <input type="checkbox"/> Form(s) 8814 <input checked="" type="checkbox"/> Form 4972 <input type="checkbox"/>)			11	7,361
	b Add any amount from Schedule 2 and check here <input type="checkbox"/>			12	0
12	a Child tax credit/credit for other dependents <u>0</u> b Add any amount from Schedule 3 and check here <input type="checkbox"/>			13	7,361
13	Subtract line 12 from line 11. If zero or less, enter -0-			14	0
14	Other taxes. Attach Schedule 4			15	7,361
15	Total tax. Add lines 13 and 14			16	
16	Federal income tax withheld from Forms W-2 and 1099			17	
17	Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863			18	
18	Add any amount from Schedule 5				
18	Add lines 16 and 17. These are your total payments				

5. Estate – Long Term Care & Estate Planning. No one likes to think about the end, but a good plan considers every eventuality. By planning ahead you can minimize the burden on your loved ones and heirs, while also ensuring that your final wishes are carried out faithfully and efficiently. We at Savvy are not attorneys, and we advise everyone to implement appropriate legal documents with a qualified attorney. But we can help you understand the key elements of estate planning, and help you develop an outline of your intentions that you can take to a qualified attorney for implementation.

Essential Estate Planning Documents

- Estate Plan Outline
- Inventory of Assets
- Revocable Trust (or Will)
- Durable Power of Attorney (POA)
- Healthcare Power of Attorney (POA)
- Advance Healthcare Directive

6. Implementation & Tracking – At the completion of the plan, your key statements, documents, and recommendations will be delivered for your approval. The final step is to implement the plan, taking appropriate actions as outlined to set your finances on a solid path to success and security. Then over time, your plan should be reviewed on a regular basis. This is important for tracking your progress. This also gives you the opportunity to fine tune and make periodic adjustments as your personal situation and the economic environment evolve.

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