Financial planning in uncertain times
Objectives

Manage volatility

Create an emergency plan

Learn to take advantage of taxes

Create an exit strategy that outlives you
Planning for Uncertain Times

Job Transitions
- Career change
- Job loss
- Retirement

Market Changes
- Corrections
- Recessions
- Bear Markets

Emergencies
- Health issues
- Major repairs
- Legal issues
- Accidents
- Pets
The Importance of Financial Fitness

Weathering uncertain times is not about deciding how to invest your money. It’s having a sound financial strategy that coordinates aspects of your financial life.
The five pillars of financial protection

A strong foundation is key to weathering a financial storm. Building one involves:

- Protecting against economic crises
- Developing tax-saving strategies
- Establishing liquidity and control
- Creating a lifetime income stream you can’t outlive
- Ensuring your heirs receive their inheritance efficiently
L.I.F.E. Design

Lifetime
Inventory
Financial
Evaluation
L.I.F.E Design: Inventory

Salaries
- Take-home vs. gross
- Current vs. future
  - Future: Social Security, pensions, asset withdrawal, etc.

Savings
- Emergency funds, savings, investment accounts, IRAs, 401ks, TSPs (stocks, bonds, mutual funds, CDs, etc.)

Real Estate
- Current home value vs purchase price
- Mortgage interest rate, principal, and interest amount
  - Are you paying PMI Insurance?
- Rental property – current value/depreciation

Debt
- Balances
- Minimum payments
- Interest rates
- Remaining payments

Insurance
- FEGLI – How many times your salary?
  - Are you planning on keeping it into retirement?
- Life
  - Term or permanent
  - Cash value
  - Current benefit vs future
  - Premiums
  - Long-term care – premiums and benefits

Wills and trusts
L.I.F.E. Design: Evaluate and Formulate

Evaluate your inventory for strengths and weaknesses

Formulate a plan for long-term success that can weather uncertainty

This plan should include:

- A budget – understanding cash flow needs
- Debt reduction and eliminating interest on debt
- Improving credit
- Saving, investing, and earning interest for retirement
- Estate planning – wills, trusts, longevity planning, etc.
Build Your Budget

How to reach your budget goals

Determine your net income

This is the actual amount of money received after state federal, social security, and other taxes have been deducted

Categorize all expenses

Daily living, monthly, quarterly, and yearly bills and fees

Evaluate your spending

Review all credit card and checking account transactions for at least the past 60 days
Sort by merchant or description and identify where you can reduce or eliminate costs

Standard Guideline:

You need to be living on 70-75% of your net income, and saving 25-30%
Three Phases of Wealth

**Contribution**
- Having an income
- Saving

**The Fragile Decade**
- Using time as an asset
- Five years before and after retirement

**Distribution**
- Creating a stream of income for expenses in retirement

Planning for uncertainty is different in each phase.
Contribution Phase

**During this phase we are working, earning, saving, and perhaps at the same time, raising children**

**Maintain flexibility**

- Liquidity of money is imperative
- Eliminating debt is crucial
- Utilizing dollar cost averaging is key

**Plan for uncertainties that may derail finances**

- Job loss
- Health/legal crisis
- Unexpected expenses
Contribution Phase

Eliminate mandatory payments – a best practice

Pay off debt

Make a list of debts, sort them by lowest balance owed, pay off the smallest debt first, and pay the minimum on larger debts.

Once the smallest debt is paid off, “snowball” the payments into the next biggest debt.

Re-Structure debt

Initiate zero-balance transfers

Refinance your home

Don’t be afraid of a 30-year mortgage

You can always turn a 30-year into a 15, but not the other way around.

A 30-year mortgage can lower your mandatory minimum payment while offering you the flexibility to save more.
Contribution Phase

**Save money**

Establish an emergency fund

- At least six months of mandatory expenses: food, mortgage, etc.
- Take out money only for an emergency (job loss, unforeseen expenses)

Keep things liquid

- Don’t put all your eggs in one basket

*No magic investment will make you rich overnight. Saving money efficiently is more advantageous*
Contribution Phase

**Key ways to save:**

**Qualified Accounts:** TSP, IRAs, 401ks, etc.

- Take advantage of matching programs offered by the government
  
  **Example:** TSP will match 5% after you invest 5%

- Consider looking at other liquid options or a Roth IRA

Money saved in these accounts have restrictions

  **Example:** There’s a 10% penalty for withdrawing money prior to age 59½

  **Exceptions:**
  
  - ROTH IRAs allow you to withdraw the principal penalty for free at any time
  - TSPs/401ks allow you to take a loan up to 50% of the value

**Non-qualified accounts:** Savings, brokerages, insurance, etc.

- These accounts can be a great way to save for access to money

First, establish an emergency fund, then designate monthly flow toward investment accounts that can be accessed without penalties
Contribution Phase

**Get insured to circumvent emergencies**

Types of insurance

- Property and casualty
- Long term care
- Life insurance
- Umbrella

Permanent life insurance – useful in several ways

- The cash value for everyday purchases
- The ability to take a loan against yourself
- Protection in case of death and disability
The Fragile Decade

Your *Contribution phase* strategies still apply once you enter the *Fragile Decade*. In addition:

Protection becomes even more paramount

- Consider shelters for your money that have low volatility – specifically TSPs, 401ks, IRAs, etc.

Set yourself up for the next 30 years

- Consider long-term care *before* being prone to age-related issues

During this phase, economic corrections are a real threat

- Utilize conservative types of investments
  - Lifecycle funds
  - Annuities (one of the most misunderstood areas of finance)
  - Insurance
  - Volatility controlled indices

The last one to two years of savings need to be used efficiently!

- The last year of savings doesn’t make or break retirement – the first 39 do
The Distribution Phase

**All planning should have the distribution phase in mind**

In this phase, a new set of risks evolve

- The sequence of returns risk
- Long-term care
- Tax and estate planning
The Distribution Phase

The Sequence of Returns

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Average Return: 4.0%

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Average Return: 4.0%

Despite having the same average annual return, **Investor Blue** has $70,055 more than **Investor Green** due to their sequence of returns.
The Distribution Phase

**Consider leveraging of assets**

Are you going to spend ALL the money in your TSP and IRA?

Most of us can live off of 4-5% of our assets (The Prudent Person Rule)

   If this holds true, a vast majority of the money that is in our accounts will never be touched

   This is the money that you want to use to protect against catastrophic events such as large market swings, long-term care, and increased taxes on inherited assets
Long-Term Care

70% of adults need long-term care at some point in their lives.
National averages run anywhere between $8,000-$12,000 a month.

Incorporate long-term care protection through:
- Traditional insurance – FLTC
- Hybrid insurance
- Asset-based long-term care
Estate Plan

Don’t wait - estate planning is for the living

**Will**

Three parts to a will:
- What happens to your assets
- Who can make financial decisions for you
- Who can make medical decisions for you

**Trust**

A legal document (separate from a will) that ensures your assets get distributed exactly the way you want
Focus on Good Financial Sense

We can’t control market volatility, so control what you can

We can control:

The way we structure our debt to be efficient

The way we leverage current assets – especially our mortgage

Elimination of the sequence of returns risk through financial products

Estimated guesses of our taxation

Our exit strategy
Summary

Plan for unforeseen events in these four areas:

Tax
Estate
Insurance
Assets

Earning more interest by picking the right investment is not a strategy!

Seek guidance from financial professionals

CPA
Lawyer
Insurance
Money manager
RESOURCES

**Book**


Tonya B. Rapley, 2019

**Articles**

Click here for 6 Major Financial Steps of Your Life

Click here for How to Tackle Saving for These 6 Major Life Expenses

**Websites**

Click here for The Institute for Financial Education

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