FINANCIAL PLANNING IN UNCERTAIN TIMES

A WEBINAR FOR EMPLOYEES FROM YOUR EMPLOYEE ASSISTANCE PROGRAM

January 13, 2021

PSC | Federal Occupational Health

OBJECTIVES

- Identify the pillars of a strong financial foundation
- Learn how to design a L.I.F.E. strategy and build a budget
- Review the three phases of wealth

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

SECTION 1

FINANCIAL FITNESS

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:

1. Protecting against economic crises
2. Developing tax-saving strategies
3. Establishing liquidity and control
4. Creating a lifetime income stream you can't outlive
5. Ensuring your heirs receive their inheritance efficiently

SECTION 2

LIFE DESIGN

L.I.F.E. DESIGN

L I + F E

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

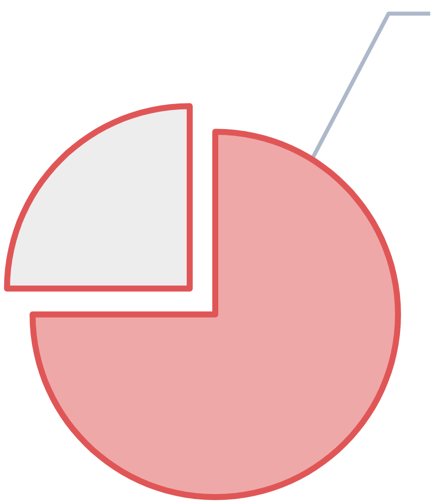
L.I.F.E. DESIGN: EVALUATE AND FORMULATE

– 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%

SECTION 3

LIFE’S THREE PHASES OF WEALTH

THREE PHASES OF WEALTH

1. **Contribution**
   - Having an income
   - Saving
2. **The Fragile Decade**
   - Using time as an asset
   - Five years before and after retirement
3. **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

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

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

CONTRIBUTION PHASE

Key ways to save:

- **Qualified Accounts**
  (TSP, IRA, 401k, etc.)
  - Take advantage of matching programs offered by the government

    Example: Your 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* strategies still apply in 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** evolves:

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

THE DISTRIBUTION PHASE

The Sequence of Returns

Retiring at the Beginning of an up market			
Year	Investment Value	Withdrawals	Return
0	$100,000	N/A	N/A
1	$103,000	$5,000.00	8.00%
2	$109,330	$5,000.00	11.00%
3	$124,009	$5,000.00	18.00%
4	$136,371	$5,000.00	14.00%
5	$147,735	$5,000.00	12.00%
6	$156,031	$5,000.00	9.00%
7	$168,195	$5,000.00	11.00%
8	$178,332	$5,000.00	9.00%
9	$185,816	$5,000.00	7.00%
10	$190,106	$5,000.00	5.00%
11	$177,502	$5,000.00	-4.00%
12	$158,302	$5,000.00	-8.00%
13	$129,557	$5,000.00	-15.00%
14	$116,783	$5,000.00	-6.00%
15	**$105,944**	$5,000.00	-5.00%

Average Return: 4.0%

Retiring at the Beginning of a down market			
Year	Investment Value	Withdrawals	Return
0	$100,000	N/A	N/A
1	$90,000	$5,000.00	-5.00%
2	$79,600	$5,000.00	-6.00%
3	$62,660	$5,000.00	-15.00%
4	$52,647	$5,000.00	-8.00%
5	$45,541	$5,000.00	-4.00%
6	$42,818	$5,000.00	5.00%
7	$40,816	$5,000.00	7.00%
8	$39,489	$5,000.00	9.00%
9	$38,833	$5,000.00	11.00%
10	$37,328	$5,000.00	9.00%
11	$36,807	$5,000.00	12.00%
12	$36,960	$5,000.00	14.00%
13	$38,613	$5,000.00	18.00%
14	$37,860	$5,000.00	11.00%
15	**$35,889**	$5,000.00	8.00%

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)

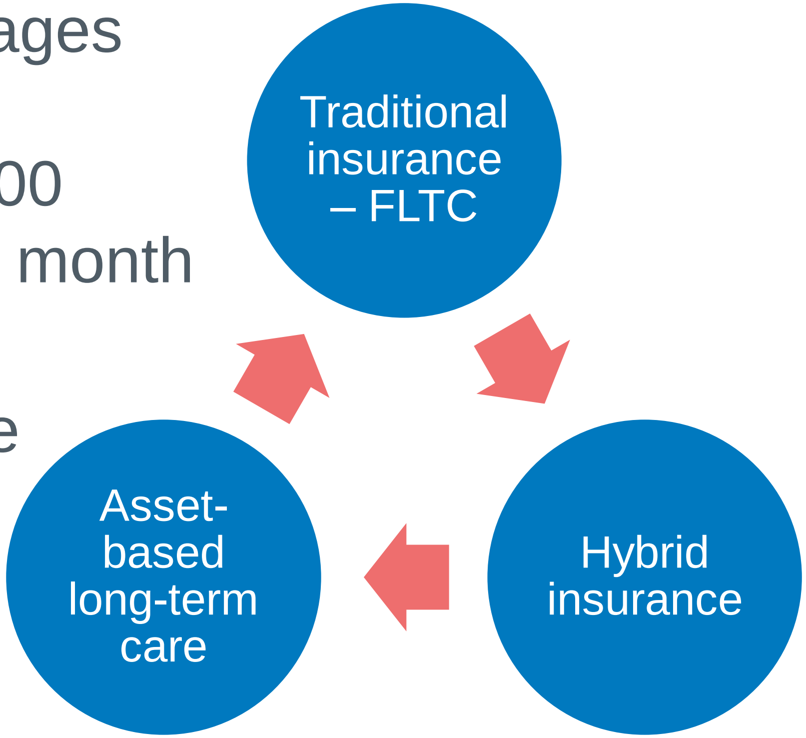
- If this holds true, a vast majority of the money that is in our accounts **will never be touched**
- This is the money that you want to use to protect against catastrophic events, such as large market swings, long-term care, and increased taxes on inherited assets

SECTION 4

TAKE CONTROL WHERE YOU CAN

LONG-TERM CARE

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

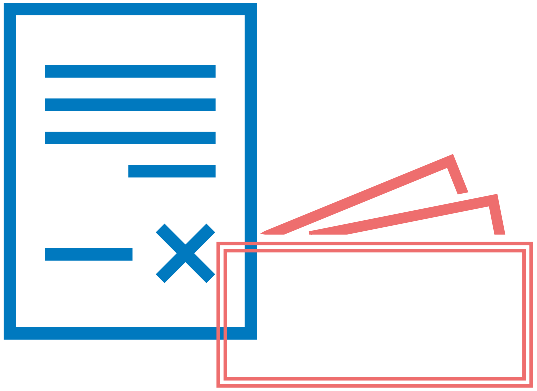


ESTATE PLAN

Don't wait! Estate planning is for the living.

– **Will**
  - Three parts to a will:
    1. What happens to your assets
    2. Who can make financial decisions for you
    3. 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:
  1. Tax
  2. Estate
  3. Insurance
  4. Assets
- Seek guidance from financial professionals
  - CPA
  - Lawyer
  - Insurance
  - Money manager

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

RESOURCES

Book

- *The Money Manual: A Practical Money Guide to Help You Succeed on Your Financial Journey*
  - Tonya B. Rapley, 2019

Websites

- The Institute for Financial Education
  - ifeonline.org
- PracticalMoneySkills.com
  - practicalmoneyskills.com/learn/life_events
- MyMoney.gov – Life Events
  - mymoney.gov/lifeevents/Pages/lifeevents.aspx

Articles

- 6 Major Financial Steps of Your Life
  - thebalance.com/major-financial-steps-of-life-2386034
- How to Tackle Saving for These 6 Major Life Expenses
  - thepennyhoarder.com/save-money/expensive-life-events

Tools and Calculators

- Free Budget Sheet
  - free-financial-advice.net/create-budget.html
- Useful Financial Calculators
  - free-financial-advice.net/financial-calculators.html

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