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WEALTH MANAGEMENT

Plan for more: A financial planning guide

You work hard to build your legacy, and your financial plan should work just as hard as you. In this guide, you'll learn how to plan, review your budgeting strategy, and prioritize your financial goals to make the most of your wealth and achieve what matters to you.

Budgeting isn't just for retirees: Tips to plan for long-term financial success

Budgeting is the first step toward taking your financial future into your own hands.

One of the hardest parts about being a financial planner is convincing people to do things they'd rather ignore. When times are good, it's easy for people to avoid putting strategies in place that create some short-term work and discomfort. But regardless of if you feel like you're earning enough to be financially comfortable, budgeting can help you achieve long-term financial goals and provide some security should your situation ever change.

Making a budget taps into a powerful aspect of human nature that we all know — that writing down your goals makes them more likely to happen. It also reveals insights into self-destructive spending habits that would otherwise go unnoticed.

This is an effective tool for people of all ages, but it's particularly essential for working professionals because of their spending preferences — for instance, lifestyle purchases like food and travel — and the length of time they have to accumulate savings.

Time is on your side

Budgeting enables you to pinpoint where you can funnel cash toward the essential goals of building up a three- to six-month emergency reserve, as well as contributing to investment accounts such as 401(k) plans and Roth IRAs.

Starting a regular investment habit early in life is particularly crucial because of the power of compounding, which is particularly magnified over longer periods of time. The earlier an individual starts to invest in a disciplined way, the longer those dollars have to grow. The benefit is so significant that an investor who starts investing a fixed amount monthly for ten years, starting when they are 25, will have much more money at age 65 than if they wait until they turn 35 and then invest that same amount for the next 30 years, assuming the same rate of compounded growth for each! The bottom line: getting started as an investor early — even if it means sacrificing some current wants — pays off. Your future self will thank you.

Having enough cash to make it through at least six months allows you to feel a much higher level of comfort at a time of job and pay cuts, furloughs, and a generally uncertain outlook. It also avoids the need to dip into investment portfolios during a down market or, worse, take costly early withdrawals from pretax retirement funds.

BUDGETING

PERSONAL BALANCE SHEET

MARRIAGE CHECKLIST

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RETIREMENT PLANNING

SUBSCRIBE

SPEAK WITH AN ADVISOR

Beyond security, extra cash also holds possibilities

That much is fairly obvious. Less well understood is how a healthy cash reserve also provides opportunities to gain during volatile times. Clients with significant cash on hand are generally hesitant about deploying their cash all at once into the market. As a result, we've helped them develop dollar-cost averaging strategies over 6–18 months to reduce their vulnerability to an immediate market downturn and potentially take advantage of lower market entry points.

The advantage of having cash reserves is about peace of mind and the flexibility to invest in a way that takes advantage of opportunities in line with your risk tolerance. Having cash on hand gives an additional element of malleability to build strategies around dollar-cost averaging, asset allocation, and risk exposure.

Keep everything in perspective

Anything that encourages stricter budgeting and more investment opportunity is positive in our view, but people also need to be realistic about how much they need to retire. It all comes down to spending habits.

We've had conversations about "running out of money" and budgeting with clients who have over $20 million in investment assets; on the other hand, we have many clients who can live comfortably for the rest of their lives on well under $1 million. Spending is the most important variable, and that's why it's hard to have a rule of thumb for how much in investments the average person needs to retire.

None of this is to gloss over the very real financial challenges that people are facing, but disciplined budgeting and smart investing are simple ways for you to take control and build the freedom you want both today and in retirement.

Financial planning roadmap: Your personal balance sheet

Managing your personal finances over the long term starts with your balance sheet. This tool will help you get organized, make smart decisions, and maximize your wealth over time.

The road to financial independence is different for everyone, but everyone's path starts with organizing your financial information. A personal balance sheet that shows everything you have and everything you owe will help you see the full picture.

The process of creating a personal balance sheet often uncovers opportunities and identifies risks to address — whether today, tomorrow, or 10 years from now. Having one document that identifies all assets, liabilities, ownership, and beneficiaries will go a long way toward streamlining your estate for future heirs. Here's how to use your personal balance sheet to start creating a stronger financial future.

Identify risks and opportunities

Your balance sheet brings context to decisions. It allows you to understand how a decision in one part of your financial life affects others. Estate planning, investment management, insurance, and tax should be handled in a coordinated manner to find opportunities and uncover risks. For example, if you focus too heavily on a tax reduction strategy, you might overlook the risk of a concentrated equity holding; seeing all your financial information in one place will reduce the chance of costly mistakes like this.

The goal is not just to mitigate risk but also to determine how to maintain and grow your wealth. Ask yourself, "Does this plan, strategy, or decision positively or negatively affect my long-term net worth?"

The balance sheet is important to identify potential gaps in your investment strategy. For example, some view diversification as holding accounts in many places. After preparing a balance sheet, they may find that all these accounts are invested very similarly. Diversifying your investments can significantly reduce your portfolio volatility, and a balance sheet can help you gain perspective to make those decisions.

Align your personal goals with your financial resources

A balance sheet can also provide key insights into your overall financial independence and help identify the best resources to use for cash needs. By understanding the balance of liquid and illiquid assets, you can more appropriately plan for your lifestyle needs and goals using the budget you've created and use various assets to their highest potential.

In practice, this might be using a 529 savings account to ensure the most tax-free growth for college-related expenses or using a combination of traditional and Roth IRA accounts to manage taxable income as tax brackets change with proposed legislation. For charitably inclined families, effective use of charitable accounts can result in substantial tax savings during high-income years while allowing a donor to gift assets over time. Whatever the case, a balance sheet can help you define or track progress toward achieving your goals and make informed decisions about the strategies you use to shape your financial future.

Consider your estate and legacy

When it comes to estate planning, it's very difficult to create a holistic plan without a clear view of net worth and ownership. Often, advisors make mistakes by taking a myopic view, assuming the investment portfolio is the largest family asset. This is common with business owners. Ignoring assets outside of traditional investment portfolios leads to poor planning and the potential risk of unnecessary estate tax.

Consider this: The number-one legacy people most want to leave isn't financial assets but family harmony. People don't always realize how certain assets they cherished during their lifetime — family cottages, for example, or sentimental family heirlooms — may cause tension and frustration when they're no longer around. The same can be true of family businesses when some family members are actively involved and some aren't, or succession plans between unrelated parties aren't documented appropriately. Thoughtful planning can eliminate or at least reduce the possible loss of family harmony.

Next steps

There are two phases when creating a personal balance sheet: gathering data and assembling it into a usable format. Gathering data can be challenging, especially if you're doing it for the first time. A trusted advisor can help you not only develop your balance sheet, they'll help you keep it current so you can continue to make informed financial decisions.

Getting married?
Here's your financial checklist

Engaged and newlywed couples often have different viewpoints about money and finances. Use our checklist to start your marriage out on the right foot.

It's not always easy to talk about money, so it's no surprise that engaged and newlywed couples often bring different viewpoints about saving and spending to their relationship. Investing time upfront to discuss and plan together will help you get your shared future off to a strong start — and closer to achieving your dreams and goals. Here's a list of items to get started:

Be transparent about your financial past

- What is each person's current financial situation? Having a clear picture is one of the first steps to develop a solid plan.
- Has either party had a bankruptcy, home foreclosed, or some other negative financial event in the past?
- Run your respective credit reports and obtain your credit scores. Talk through building or improving credit if a current credit history hasn't been established or the scores are low. Establishing credit and having a strong score will be helpful when trying to secure financing for a home or other items in the future.

Compare (or combine) your personal balance sheets

- What do you have, and what do you owe? Create a list of all individual or combined balances of assets and liabilities, including titling of accounts and current beneficiaries.
- Update the balance sheet annually to reflect any changes and to keep you both aware of your overall financial situation.
- Be present and share responsibilities during financial planning discussions. It's not uncommon for one partner to handle the finances, but it's important that both of you have a general understanding.

Discuss goals for your finances

- Talk about whether or not you intend to keep finances separate or if you'll combine them.
- Consider whether a prenuptial agreement is something you want to complete before getting legally married. This is especially important if one person is entering into the marriage with significantly more assets or has family wealth, real estate, or business interests. Consider meeting with an advisor who can help facilitate the discussion.
- Develop a list of your short-, intermediate-, and longer-term goals. These may include buying a home, starting a family, traveling, or perhaps changing jobs. Keep in mind that things change, and you can always modify your goals in the future.

Develop a preliminary budget and discuss how you'll allocate resources and income as a couple to fixed and discretionary expenses

- Download a budgeting app or use a spreadsheet to track income and expenses.
- Creating a budget is a great catalyst for a financial discussion and sharing what's important to each of you. It's often best to create a budget separately first — before you get married — so you can understand each other's saving and spending habits. Is travel extremely important? Do they have an over-spending problem? Is charitable giving a top priority? Does your partner save every dollar they make? Then, work together to produce a joint budget that incorporates what's important to you both and agree to adhering to it.
- Budgets shouldn't be something you set and forget. Life changes, and so should your budget. A budget keeps you accountable for your financial choices over time and helps ensure healthy financial discussions continue throughout your marriage.

Develop estate planning documents as a couple, and make sure to establish guardianship if you have or plan to have (minor) children

- Most people think estate planning and estate documents are only for the wealthy, but that's definitely not the case. Consider having these discussions with your advisor now, even if you feel like it may be too early.
- Make sure to have your crisis plan and the documents required to execute it in place right after you get married. These documents may include:
    - Wills
    - Durable power of attorney
    - Healthcare power of attorney
    - Guardianship designations, if applicable
    - Trusts

- Revisit estate planning documents every three to five years to make sure they continue to reflect your wishes.
- Consider your life insurance needs now that you're married using a needs analysis, particularly if you have young children.
- It can be uncomfortable to think about death, but play out the scenario of one of you passing away prematurely. What's important to you? For example, do you want to ensure the surviving partner doesn't have to go back to work? That the mortgage is paid off? If kids are involved, that their education will be fully funded?
- Once you have an idea of your priorities and goals, you can begin to consider what amount and kind of insurance you need to achieve them.

Create a post-wedding financial to-do list

- Are you or your spouse, or both of you, planning to change names? If so, that means updating it on driver's licenses, social security cards, passports, voter registration, and all other legal forms of identification.
- Reevaluate titling and beneficiaries on all financial accounts, including bank accounts, 401(k) plans, life insurance, and utility and other financial and billing accounts.
- Revisit health insurance elections. Determine whether it makes sense to stay on separate plans, add your spouse to your employer plan, or have your spouse add you to their plan.

Start your marriage off on the right financial foot. The more you communicate and are vocal about finances, the healthier your shared foundation will be. Spend time now to discuss and plan your financial life together — it can bring you closer as a couple and closer to achieving your goals.

Charitable giving: Tips for smarter gifting

Is charitable giving important to you? Creating a strategy can help you focus your efforts and make sure you're making the greatest impact.

Clients often ask us how to "give smarter." Keep these top five tips in mind as you start your philanthropy journey.

1 Determine your charitable giving goal

Charitable contributions are irrevocable gifts — once you've given them directly to a charity or to another giving vehicle like a donor-advised fund or private foundation, you can't get that money back. That's why you should define your annual giving budget in two ways: first, how much you're comfortable setting aside for charity relative to your total annual budget and second, how much of your budget will go to a particular cause or organization.

2 Define your core values and areas of interest

It can be particularly hard to say no to requests for contributions if you haven't clearly defined what's most important to you, but saying no to some opportunities allows you to say yes to others. For example, let's say you're focused on supporting human services and early childhood education, and you're intentional about funding and collaborating on projects in these areas. Your friend approaches you about a worthy organization dedicated to animal welfare. Historically, you'd feel compelled to fund this project, even if it wasn't quite so close to your heart.

This is where having your plan and budget, as well as your personal balance sheet, come into play. It gives you permission to acknowledge the importance of your friend's interests while saying no and staying true to your passions, perhaps with less guilt and more conviction.

3 Do your homework

With over one million nonprofits in the United States, it can be overwhelming and confusing to understand how and where to give your dollars or other assets. We recommend considering both quantitative and qualitative factors.

QUANTITATIVE QUESTIONS MIGHT INCLUDE:

- How much is spent on programs versus administrative expenses?
- What is the size and age of the organization?
- How might that impact its ability to use your gift?
- Old and large isn't always a better option.
- Context can be helpful to interpret organizational data — that's where qualitative questions come into play.

QUESTIONS TO ASK YOURSELF MIGHT INCLUDE:

- What's the reputation of the organization in my community?
- Do I trust the leadership and its vision for the future of the organization?
- How do the values of this organization align with mine?

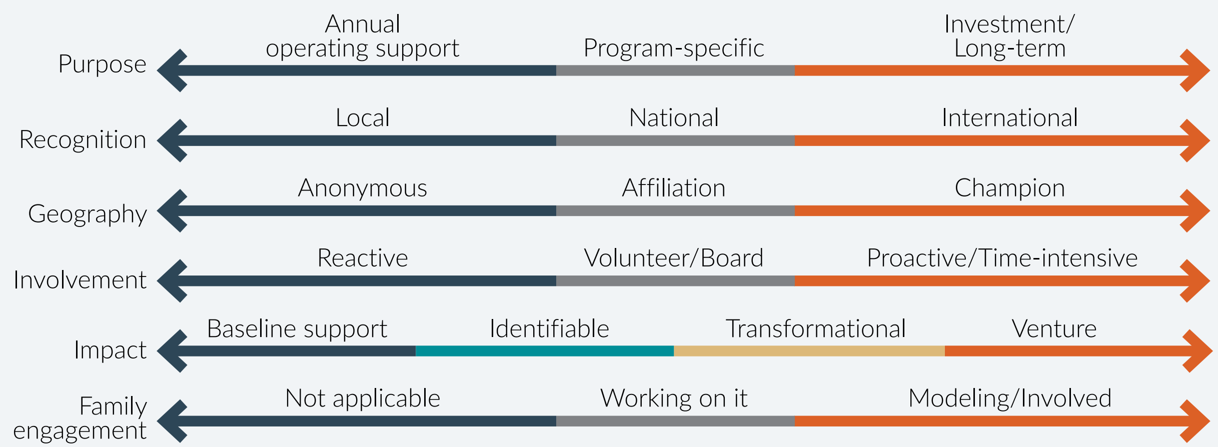
Helpful resources include **Candid** (formerly GuideStar), **Charity Navigator**, the **BBB Wise Giving Alliance**, organizational websites and annual reports, along with good old-fashioned conversations with those who work, serve, and even use services at the charity.

4 Reflect on current and past gifts

If you've successfully tackled the first three actions above, consider going a step further. A number of clients are expressing interest in developing strategic giving plans, and part of this process includes defining your "giving personality."

Put simply, one's giving personality represents a set of criteria that defines and helps guide charitable giving in multiple areas: purpose, geography, recognition, involvement, impact, and family engagement. The chart below highlights six key considerations and can be used to be more strategic with your philanthropy.

Defining your giving style:



QUESTIONS WE MIGHT ASK AS YOU REVIEW THE PREVIOUS CHART INCLUDE:

- Do you tend to give to organizations without specifying a purpose, or do you direct funds to specific programs or long-term investments?
- Are most of your charitable gifts given locally, or is geography irrelevant to you if the organization is doing good work (as defined by you)?
- Do you prefer to remain anonymous when making gifts or perhaps you recognize the impact of leading a campaign with a major gift or matching grant?
- Is it important for you to be proactively involved with the organizations you support?
- What impact are you looking to make? Maybe you're willing to give to a new unproven venture with more risk and less of a track record.
- How do you engage others in your philanthropy, and is this important to you?

There's no right or wrong answer to any of these questions, but each of us generally has an opinion, especially when giving significant dollars.

5 Engage others in the process

Philanthropy is one of the easiest ways to model what's important to your family and engage the next generation in stewarding those values. For some, giving alone might be easier, but it's a missed opportunity to address so many of the objectives and concerns that parents and grandparents have about their family's legacy. Instead, get your loved ones involved early and use your philanthropy as a tool to foster greater family communication and understanding.

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Financial planning: Don’t forget about retirement

Retirement may seem like a lifetime away, but the earlier you plan for it, the more financially comfortable and prepared you’ll be. Take the time now to invest in yourself and avoid these retirement planning mistakes.

Often, the popular retirement planning recommendation is to simply “save as early and as often as you can.” While this concept is certainly prudent, it’s a bit vague. How much should you save? Where should you save? When should you save? Just as important as what you should be doing is what not to do. There are many common pitfalls made when working to achieve retirement goals. Avoiding these can ensure you optimize success for your post-working years.

Budgeting for retirement

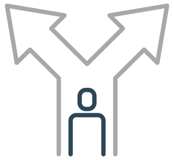
One of the biggest mistakes you can make is failing to establish a budget. An important first step toward a comfortable retirement is to allocate after-tax income to specific buckets. A basic budgeting model of 50/30/20 is a common starting point. Allocate 50% of monthly income to fixed expenses, 30% to flexible spending, and 20% toward financial goals. While this split is not a hard-and-fast rule, building out a budgeting goal can be a great anchor.

When you don’t use a budget, you can easily lose track of where income is really going and can drift away from desired habits and tendencies. For example, a general rule of thumb is to not spend more than 30% of your after-tax income on housing. Doing so can leave one over-extended and unable to enjoy flexible spending or focus on prudent financial savings goals like paying off high-interest debt.

Don’t delay 401(k) plan contributions

Gone are the days of retirees relying on employer-funded pensions or government-managed programs like Social Security to primarily fund their retirement lifestyle. While some pension plans linger and Social Security benefits are still anticipated, having these income streams fund retirement in its entirety is unrealistic.

Instead, you’ll need to take action and consciously save toward retirement. The key mistake many make is waiting to contribute. It’s all too common for working professionals to defer electing a 401(k) contribution when starting a new job or allocating dollars to a brokerage account until they feel more financially stable. Even if it’s a small amount to start, getting an account funded and initiating the compounding effect is crucial. Additionally, most retirement plans offer an annual increase tool to bump savings on a consistent basis gradually.

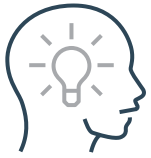


Choosing a traditional or Roth 401(k) plan option

The Roth 401(k) plan option has become more popular within retirement plans over the past decade. The main difference between a Roth 401(k) plan and a traditional 401(k) plan is the tax treatment. In a traditional 401(k), pretax dollars fund the account, and ordinary income taxes are owed upon distribution. Roth 401(k) plans are funded with post-tax dollars, but qualified distributions are tax-free under current laws.

Ask yourself, "Do I expect to be in a higher tax bracket now or when I plan to use my retirement funds?" If the tax rate difference between the two time periods is significant, investors can miss out on impactful savings by ignoring the Roth 401(k) plan option.

If you don't have access to an employer-sponsored retirement plan, you can always contribute to an individual retirement account (IRA) or explore other retirement plan options if you're self-employed.



Don't chase trends — stick with smart allocation

Many individuals' main vehicle for investing is their retirement plan offered through their employer. Others use IRAs, brokerage accounts, or a combination of each to save for retirement. Regardless of the investment vehicle, one of the most contemplated decisions is, "What do I invest in?" Before exploring this decision, investors first need to address the appropriate amount of risk (equity/stock exposure) to have in their portfolios.

The three pillars for purposes of the risk discussion are time horizon, risk tolerance, and needed rate of return. Taking some risk in the early years of savings is crucial. Not everyone can stomach the volatility that accompanies an aggressive equity allocation, but some individuals need to take on a higher level of risk to meet their retirement goals. Being too aggressive can lead you to sell out of the market when volatility rears its ugly head. Being too conservative can cause you to fall short of your desired retirement asset base. Choosing the appropriate risk level within your portfolios is the first step for managing retirement assets appropriately.

Once you determine a prudent investment allocation, you can address which investments make sense for you. It can be easy to get caught up in the appeal of a hot stock or speculative investment like cryptocurrency. While these investments are intriguing, they present significant downside risks for investors and can quickly diminish balances if negative volatility creeps in. For retirement plan investors with limited knowledge of the stock market, target date or allocation funds are easy to get exposure to the broad market while maintaining cost efficiencies. These funds rebalance regularly to their allocation targets, decrease risk over time, and allow investors the luxury of low ongoing maintenance and monitoring.

Don’t ignore insurance

You may be young and healthy now, but it’s a big mistake to disregard insurance. Insurance can be an afterthought when focusing on debt repayment, retirement contributions, and budgeting, but it shouldn’t be. If your employer has a strong benefit package, you may already be covered, but make sure you still understand your position. Understanding disability and life insurance options, coverage, and downside risks are vital when developing your “crisis plan.” Having disability insurance, both short-term and long-term, is important. Quality of life and financial resources can significantly decrease if you’re no longer able to perform your job. We prefer to see long-term disability insurance policies cover 50–60% of gross compensation. If the employee pays for these premiums with after-tax dollars, benefits are not taxable to the employee. As with any insurance, understanding the different types of coverage and potential risks is prudent in the overall retirement planning strategy.

Life insurance can be used strategically for several different planning reasons, but for a professional with a young family, the most important is income replacement. If you have a family that relies on you for income and retirement savings, you likely want to ensure they enjoy the same quality of life beyond your passing. Group coverage through work is a great start, but additional coverage is likely needed to fund lifestyle goals for your beneficiaries. Term life insurance coverage is one cost-effective and flexible way to mitigate this risk. Having the appropriate coverage will help provide peace of mind that your family will be taken care of if something happens.

Get started

Spending a short amount of time early in one’s career to become familiar with these planning areas will help provide a baseline for increased financial flexibility in the future. If you haven’t met with an advisor to build a cash flow model or prepare a financial independence projection to ensure that you are on the right path to meeting your short-term and long-term goals, you absolutely should. The sooner you start, the better position you’ll be in for a comfortable retirement.

Please contact us with any questions.

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As a leader and partner in our wealth management practice, Ryan specializes in helping clients achieve their financial goals through holistic financial planning, tailored investment management, and portfolio construction. He also spends time serving on the wealth management leadership team and helping with the firm's marketing and thought leadership efforts. With over 20 years of experience, Ryan is often asked to contribute to articles in industry publications and speak at conferences. He enjoys sharing knowledge about serving the next generation of wealth, utilizing industry leading technology, and customizing advice to each client in a holistic manner as their personal CFO.

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