FINANCIAL PLANNING

Cambridge SAVINGS BANK

FINANCIAL EDUCATION
FINANCIAL PLANNING WORKSHOP

April 2022

WORKSHOP AGENDA

- What is Financial Planning?
- Benefits of a Financial Plan
- Components of Financial Planning:
  - Cash Flow Management
  - Investment Planning
  - Retirement Planning
  - Tax Planning
  - Estate Planning
- Making Your Plan a Reality
- Staying on Track

WHAT IS FINANCIAL PLANNING?

- Budgeting
- Deciding which investments to make
- Having funds set aside for emergencies
- Tax planning through 401(k) / 403(b) / IRA
- Figuring out how to achieve your financial goals
- And more

BENEFITS OF A FINANCIAL PLAN

- Have greater confidence knowing what's achievable
- Gain control and peace of mind through knowing that you're on track for the future you want for you and your family
- Prevent you from making unwise investment or other financial decisions
- Reduce your stress levels and enjoy life more

DEVELOPING A FINANCIAL PLAN

- Examines where you are now, and where you want to be
- Doesn’t have to be complicated
- Adjusted when your life changes

THE COMPONENTS OF FINANCIAL PLANNING INCLUDE

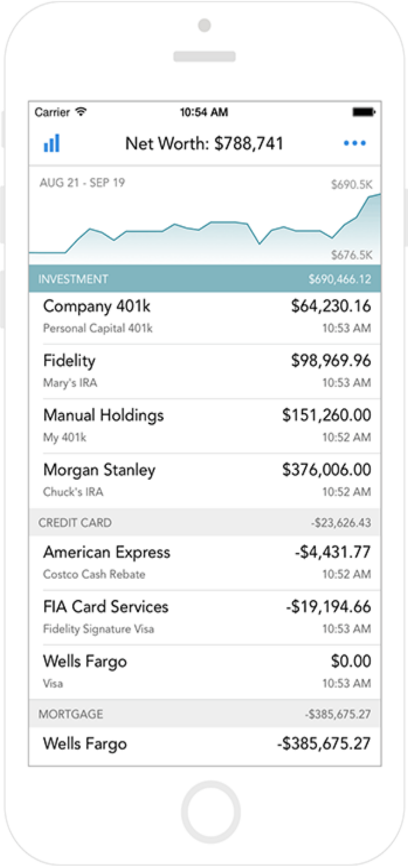
1. **Cash Flow Management:** Improving your cash flow through managing debt and spending
2. **Investment Planning:** Planning to generate returns from your investments
3. **Retirement Planning:** Planning your finances so that you can enjoy retirement
4. **Tax Planning:** Planning investments so that taxes are minimized
5. **Estate Planning:** Plans to create and distribute your wealth

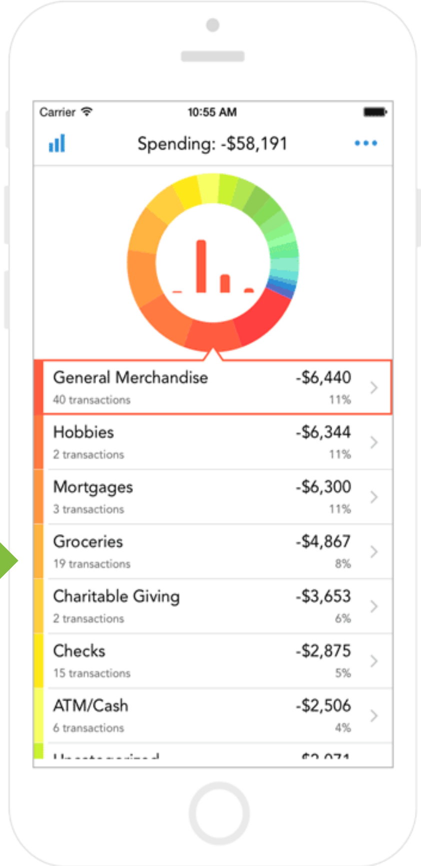
1. CASH FLOW MANAGEMENT

The key elements of cash flow management are:

- Income and what you own
- Where your money is going
- Expenses & borrowing
- Reducing debt
- Investment choices

Follow your cash





1. CASH FLOW MANAGEMENT

Benefits of improved cash flow management:

- Enjoy a comfortable retirement
- Pay off your mortgage sooner
- Lower borrowing costs (interest)
- Save for a major purchase
- Pay for college education
- Own a vacation home

1. CASH FLOW MANAGEMENT

Establish a budget:

- A strategy that can help get the most favorable results from your spending
- A small change in spending habits can make for big results!

Net Monthly Income	
Pay	$3,900
Other Income	$100
Total Monthly Income	**$4,000**

Sample Budget

Monthly Expenses	
Housing	$2,000
Insurance	$200
Transportation	$100
Utilities	$200
Food	$600
Savings	$100
Clothing	$100
Debt repayments	$250
Entertainment	$100
Retirement Savings	$200
Miscellaneous	$100
Gifts / Charity	$50
Total Monthly Expenses	**$4,000**

2. INVESTMENT PLANNING

Planning to generate returns from your investments:

- Have the right investments for your:
  - Goals
  - Time horizon
  - Risk tolerance
- Follow a disciplined approach
- Diversify to reduce risk
- Stick to a documented strategy

3. INVESTMENT PLANNING

How the stock market has performed over last 5 years:

4-12-17: 20,592

<u>4-12-22: 34,220</u>

Benefit to investing for the long run → **Market Growth = 65%**

'S&P Dow Jones Indices LLC, Dow Jones Industrial Average© [DJIA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DJIA, December 3, 2019

2. INVESTMENT PLANNING | Alternative Approaches

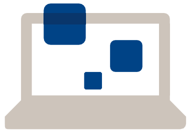
Computers vs. Humans:

How fees affect a typical $50,000 investment over 20 years

DO-IT-YOURSELF

ANNUAL FEE: 0%
WHAT IS IT? You choose, monitor and adjust all of your investments on your own
PERSONALIZATION: *Total*
You select investments based on your own research
HUMAN INTERACTION: None

END VALUE: $132,665



ROBO ADVISOR

ANNUAL FEE: 0.50%
WHAT IS IT? Using advanced algorithms, it allocates money into appropriate index funds
PERSONALIZATION: *Limited*
Choices are based upon a questionnaire about your goals and risk tolerances
HUMAN INTERACTION: None

END VALUE: $126,488

ADVISOR

ANNUAL FEE: 1-2%
WHAT IS IT? A professional money manager oversees your entire investment portfolio
PERSONALIZATION: *High*
Advisors learn about you and your needs to create a customized investment plan
HUMAN INTERACTION: Moderate to extensive

END VALUE: $109,556

'BASED ON A 5% ANNUAL RATE OF RETURN: EXCLUDES FEES FOR ACTUAL INVESTMENTS

'Information from AARP article: Should a Robot Manage Your Money?, by Josh Garskof

3. RETIREMENT PLANNING

Design your dream vision:

- The first step in retirement planning is figuring out what your vision for retirement is:
  - Your vision will determine how much your retirement will cost.
  - People are retiring younger, adding encore careers, lifestyle businesses, and working into their seventies and eighties – not because they have to, but because they want to.
  - It's time to retire the word "retirement" and redefine our lives toward fulfillment which means financial independence at any age.
  - You need to have at least a rough outline for your dream life in retirement, so that you can budget and plan accordingly.

3. RETIREMENT PLANNING

Pick your retirement date:

- The reason this step is essential is because your pension and Social Security distributions will vary depending on your planned retirement date. Your healthcare costs will also depend on if you qualify for Medicare or not.
- Additionally, the number of years you have to build your savings and the number of years your existing savings can continue growing will depend on your expected retirement date.
- In short, you can't estimate your retirement income or plan your savings until you pick a retirement date.

Estimate what it will cost:

- Now that you have a dream vision for retirement and a date to begin, it's time to estimate costs and revenues to see if you'll have enough money:
  - The first step in this process is to guesstimate how much your plans for retirement will cost, so make a budget.
  - Be overly generous in your estimates because inflation and all the stuff you inevitably forget to include will cause you to underestimate anyway.
  - Round up where you can and use your current expenses as a benchmark to adjust from.
  - It won't be totally accurate, but you have to start somewhere. This will probably be as good as it gets until your actual retirement date is close.
- Some financial planners suggest using 70-80% of current spending as a guideline

3. RETIREMENT PLANNING

Estimate savings required:

- Now it's time to estimate the amount of savings required to live your retirement dream. You do this by matching your projected income to your estimated expenses following these four simple steps:
  1. Add your estimated Social Security and defined benefit pension payments together based on your projected retirement date.
  2. Subtract that from your total estimated expenses.
  3. The difference is your income surplus or shortfall. Any shortfall must be made up from savings.
  4. Estimate the amount of savings required to support the income shortfall by multiplying the annual amount by 25 (or conventional 4% spending rule). You'll need to build this level of savings in your retirement plans (401(k) / 403(b), IRA, Roth, etc.) and other accounts to retire with financial security.
- Based on this approach, you now have a savings goal to achieve by your retirement date. All that's left to do is build a savings plan to achieve it.

4. TAX PLANNING

Planning your tax deduction method:

- When completing your tax return, you have a choice between standard or itemized tax deduction methods to determine taxable income:
  - The standard deduction is a dollar amount set by the government that you can claim without accounting for the expenses that typically make up a taxpayer's allowed deductions.
  - Itemized deductions are actual expenditure you make for deductible expenses.
- Your actual purchases in a tax year may amount to more than the standard deduction amount:
  - If that's the case, you'll likely pay less tax or get a larger refund using the itemized deduction method.
  - However, the itemized method requires support in the form of receipts and other documents to demonstrate these amounts were actually spent. Consider a filing system to save receipts.
- Even if you choose to claim the standard deduction, having receipts on file will help you make an informed choice at tax time

Retirement savings strategies:

- Many taxpayers turn to retirement plans, for both the tax reductions now and income later:
  - With a tax rate of 25 percent, for example, contributing $10,000 to a retirement plan may save you $2,500 on your current tax return.
  - Investment earnings on money in your account are not taxed until withdrawal.
- Maximizing your annual contributions to retirement accounts may be an effective cornerstone for your basic tax planning strategy.
- Using tax savings to pay down mortgage and other debt

4. TAX PLANNING

Other tax-sheltered savings:

- While the size of allowable contributions to retirement plans is attractive to many taxpayers, there are other savings plans that also defer tax and, in some cases, help you avoid tax altogether.
  - 529 college savings plans:
    - Though these plans are funded by after-tax dollars, qualifying withdrawals are tax-free. You can choose prepaid tuition plans or education savings plans.
  - Health coverage savings plans:
    - These include health savings accounts, medical savings accounts and flexible spending arrangements. Plans are funded by you, your employer or a combination, though in each case, both contributions and withdrawals for qualifying expenses are tax-free.
  - Dependent care savings accounts:
    - These are flexible spending arrangements similar to health FSAs but focused on helping pay for childcare expenses while you're working and held in a separate fund. Contributions and qualifying withdrawals are tax-free.
- Withdrawals from any of these plans that are not made for qualifying expenses may be taxable at your rate at the time of withdrawal

Tax Planning for Beginners. Intuit Turbo Tax website. Information updated for tax year 2018.

4. TAX PLANNING

Using tax credits:

- Another way to reduce the tax you owe is to use tax credits that apply to your situation. Refundable tax credits not only reduce your tax but can be used to create a surplus, resulting in a refund.
- For example:
  - Low-income earners may qualify for the earned income tax credit. Eligibility depends on your earnings, filing status and number of dependent children.
  - The child and dependent care credit applies when you must pay for care for children or disabled dependents so that you can work or look for work.
  - You may qualify for the child tax credit of up to $2,000 for dependent children under 17 who qualify.
  - Modest income earners below certain income levels may qualify for the retirement savings contributions credit, which is over and above other tax savings earned from contributions to IRAs or other retirement plans.
  - The American Opportunity tax credit can offset some costs of post-secondary education during the first four years of college or university. The maximum credit is $2,500 per qualifying student, and 40 percent of the credit is refundable

Tax Planning for Beginners. Intuit Turbo Tax website. Information updated for tax year 2018.

5. ESTATE PLANNING

An up-to-date will or trust:

- Wills require the distribution of assets go through probate. Probate is a legal process that involves:
  - Validating a deceased person's will
  - Identifying, inventorying, and appraising the deceased person's property
  - Paying debts and taxes
  - And ultimately distributing the remaining property as the will directs
- Trust are more complex to set-up, but have benefits over wills:
  - Help avoid guardianship or conservatorship if you become incapacitated
  - Work all the time, including periods of incapacity before death
  - Usually avoid probate, which helps beneficiaries gain access to assets more quickly, plus save on court fees

5. ESTATE PLANNING

A durable power of attorney:

- Written authorization that allows someone else to make financial and legal decisions for a person if that person should become hospitalized, disabled or otherwise incapacitated.
- Durable power of attorney means that the agreement is not for a temporary period of time. It may be valid immediately when it's signed, or it may go into effect at a later point.
- If a power of attorney is not durable, it is revoked when you become incapacitated – the very moment when you need it most

5. ESTATE PLANNING

Updated beneficiary designation forms:

- Will generally override any conflicting provisions within a will or trust.
- Important that updated beneficiary designation forms are on:
  - Life insurance policies
  - 401(k) / 403(b) / IRA accounts
  - Other assets
- It's essential to make sure all forms are checked and updated regularly, ideally on an annual basis.
- An estate planning professional can help anyone create or update these basic items as well as provide suggestions for additional steps, if needed.
- For estate planning help go to: **http://www.estateplanning.com/**

EstatePlanning.com
POWERED BY WEALTHCOUNSEL

MAKE YOUR PLAN A REALITY

Utilize tools and educational resources to develop your financial plan and achieve future savings goals:

- Financial Planning Association:
  - National listing of Certified Financial Planners
  - http://www.plannersearch.org/
- Consumer Financial Protection Bureau (CFPB):
  - www.consumerfinance.gov
- Cambridge Saving Bank:
  - Financial Education Learning
    - https://www.cambridgesavings.com/learning
  - Dedicated banking team

HOW ARE YOU DOING?

You are on your way if you:

- Spend less than you make (are saving)
- Have an emergency fund that covers 3 - 6 months of living expenses
- Own investments that are making you wealthier
- Hold no bad debt
- Have enough life insurance to protect your family by covering income needs and covers your debts
- Have an up-to-date will and power of attorney

YOUR FINANCIAL PLAN

- Get more from your savings and investments
- Pay off debt sooner
- Make sure you're on track to achieve your goals

Thank you

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