FAMILY FINANCIAL PLANNING
7 FINANCIAL PLANNING STEPS

Largely based on Dave Ramsey's book The Total Money Makeover

"But if anyone does not provide for his relatives, and especially for members of his household, he has denied the faith and is worse than an unbeliever."

1 Timothy 5:8

“He who loves money will not be satisfied with money.”

Ecclesiastes 5: 10

7 FINANCIAL PLANNING STEPS

1. Create a Written Budget
2. Fund an Emergency Fund (3-6 months of expenses saved)
3. Get Debt Under Control
4. Buy Insurance
5. **Prepare for Retirement**
6. Pay off Home Mortgage
7. Save for Kids' Education Expenses

RECOMMENDED AMOUNT OF MONTHLY INCOME TO SPEND IN EACH CATEGORY

Item	Recommended %	Item	Recommended %
Charitable Gifts	10-15%	Clothing	2-7%
Saving	15-20%	Medical/Health	5-10%
Housing	20-25%	Insurance	10-25%
Utilities	5-10%	Personal	5-10%
Food	5-15%	Recreation	5-10%
Transportation	10–15%	Debts	5-10%

STEP 2: FUND AN EMERGENCY FUND

- A fully funded emergency fund covers 6 months of expenses
- What is an emergency? Something you had no way of knowing was coming but has a major impact on your family. (ex. Job loss, medical emergency, etc.)
- Keep your emergency fund in something that is liquid (aka, no penalties to withdrawal)
- You will find that the longer you have an emergency fund, the less you use it.
- If you don't own a home, don't start saving for a down payment until you finish this step.

STEP 3: START THINKING ABOUT DEBT CORRECTLY

"Your largest wealth-building asset is your income. When you tie it up in debt, you greatly hinder your ability to growth wealth. When you invest your income, you open yourself up much more to wealth creation." Dave Ramsey

DEBT MYTHS

Myth

- Debt is a tool and should be used to create prosperity.

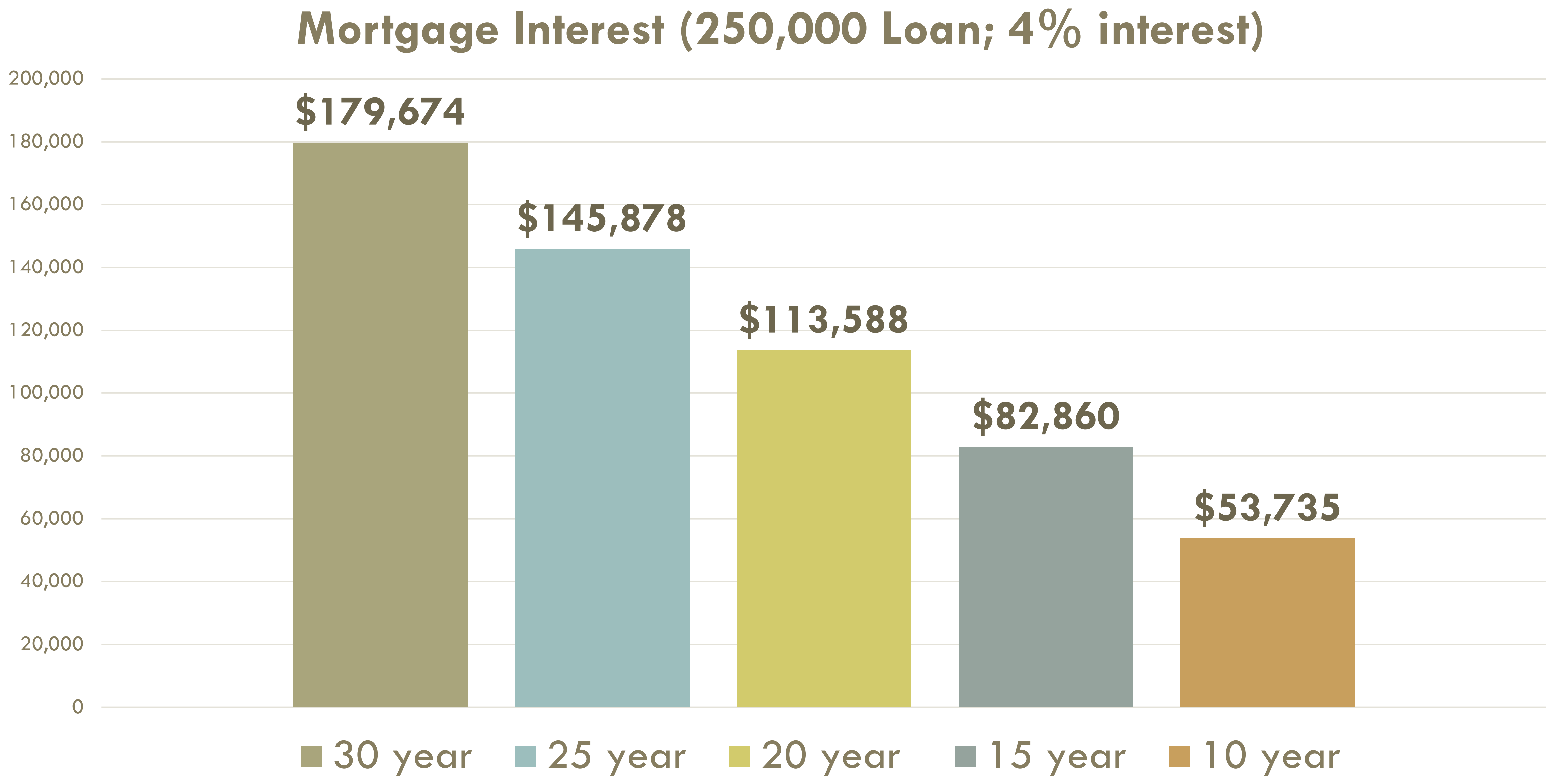
Truth

- Debt adds considerable risk, most often doesn't bring prosperity, and isn't used by wealthy people nearly as much as we are led to believe.

- 75% of the Forbes list of the 400 richest people in America said the best way to build wealth is to become and stay debt-free.

PAYING OFF A CREDIT CARD BALANCE OF $2000 AT 18% INTEREST

	Monthly Payment	Interest You Pay	Total You Pay	Time to Pay Off
Minimum (2%)	$40 or less	$4931	$6943	30yrs, 10 mos
$40	$40	$1724	$3904	7yrs, 10 mos
$10 Extra	$50	$1077	$3113	5yrs, 2 mos
$50 Extra	$90	$491	$2491	2yrs, 4 mos
$100 Extra	$140	$280	$2280	1yr, 5 mos


Mortgage Interest (250,000 Loan; 4% interest)
200,000
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
$179,674
$145,878
$113,588
$82,860
$53,735
30 year
25 year
20 year
15 year
10 year

PAY OFF DEBTS FROM SMALLEST TO LARGEST (EXCEPT HOME MORTGAGE)

- Much easier to become wealthy if you don’t have any payments.
- List all your debts from smallest to largest, pay the minimum payment to stay current on all the debts except the smallest.
- Consider selling items to help pay off your debts. (Don’t sell your home unless you have payments above 45% of your monthly take-home pay.)
- Do consider selling the car with the most debt on it.
- Good rule of thumb (except for your house): if you can’t be debt free on it in 18-20 months, sell it.

STEP 4: BUY INSURANCE

1. Health Insurance
2. Car Insurance
3. Home/Renter's Insurance
4. Life Insurance
    1. Buy twenty-year level term insurance equal to 10 times your income.
    2. Want coverage at least until your kids are out of the house
5. Long-Term Disability Insurance
6. Long-Term Care Insurance

HEALTH SAVING ACCOUNT (H.S.A.)

- Contributions are made pre-tax
- Interest earned is tax-free
- Make tax-free withdrawals for qualified medical expenses
- 2018 contribution limits
  - Self-only: $3,450 / Family: $6,850 Over 55? $1,000 catch-up contribution
- Can't contribute once enrolled in Medicare & need to stop contributing at least 6 months before you apply
- The money in your HSA remains available for future qualified medical expenses even if you change health insurance plans, change employers, or retire.
- If you withdraw funds for non-qualified expenses before you turn 65, you'll owe taxes on the money plus a 20% penalty. After age 65, you'll owe taxes but not the penalty.
- Can use the funds in an H.S.A to pay for long-term care insurance premiums and long-term care services

STEP 4: BUY INSURANCE

1. Health Insurance
2. Car Insurance
3. Home/Renter's Insurance
4. Life Insurance
    1. But don't buy Cash Value Life Insurance – the returns are usually terrible
    2. Buy twenty-year level term insurance equal to 10 times your income.
    3. Want coverage at least until your kids are out of the house
5. Long-Term Disability Insurance
6. Long-Term Care Insurance

LONG-TERM DISABILITY INSURANCE

- Three times more likely to become disabled than you are to die before age 65
- According to the Council of Disability Awareness, the average duration of a claim is nearly 3 years.
- Rule of thumb: set coverage amount at 60% of your gross (pre-tax) salary
- Recommend buying a benefit period of at least 5 years
- Cost is usually 1-3% of your annual salary
- Best place to acquire is through your employer

STEP 5: SAVING FOR RETIREMENT

"A good man leaves an inheritance to his children's children."

Proverbs 13:22

STEP 5: SAVING FOR RETIREMENT

- According to the Social Security Administration (SSA), a man turning 65 today will live to be 84.3 on average and a woman will live to be 86.6 on average.
- How much should I save?
  - 15% of before-tax income
- What to invest in?
  - Dave Ramsey recommends a good growth-stock mutual fund (for time periods over 5 years)
  - If your employer offers a matching 401K – put your money here first.
  - Then put it in an IRA – either regular or Roth.

IRA – TRADITIONAL VS ROTH

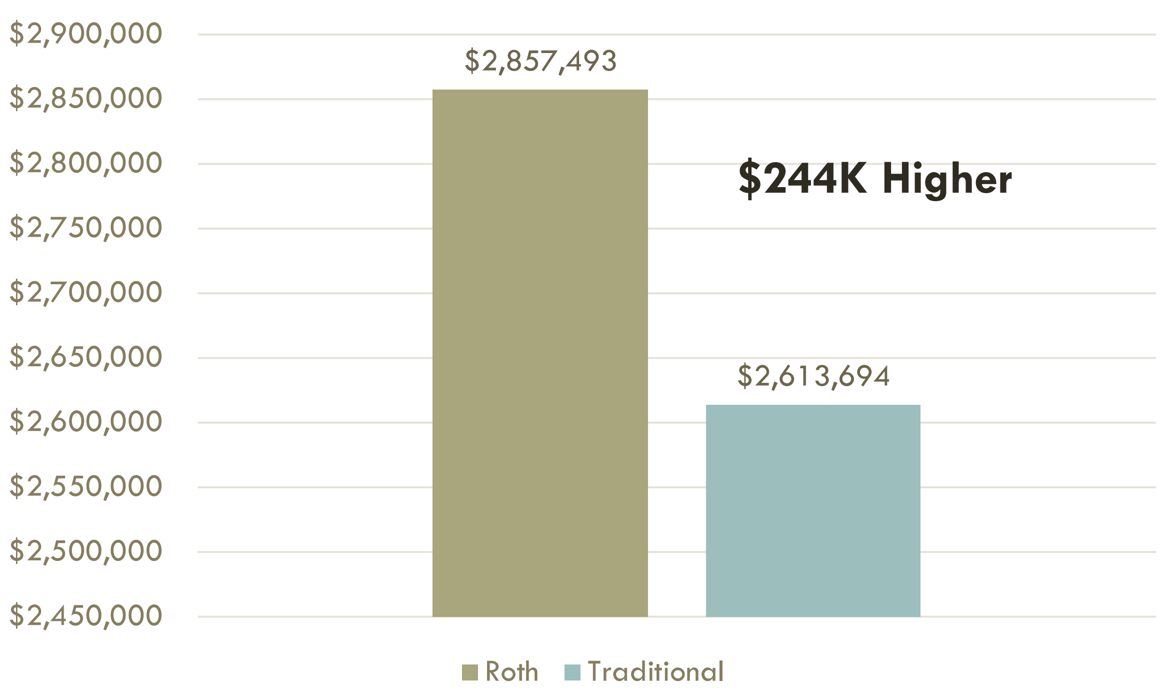
Traditional

- Currently deductible for taxes
- Pay taxes at withdrawal
- At 70 ½ - start taking RMD
- No additional contributions after 70 ½
- Choose if expect to pay less taxes at retirement

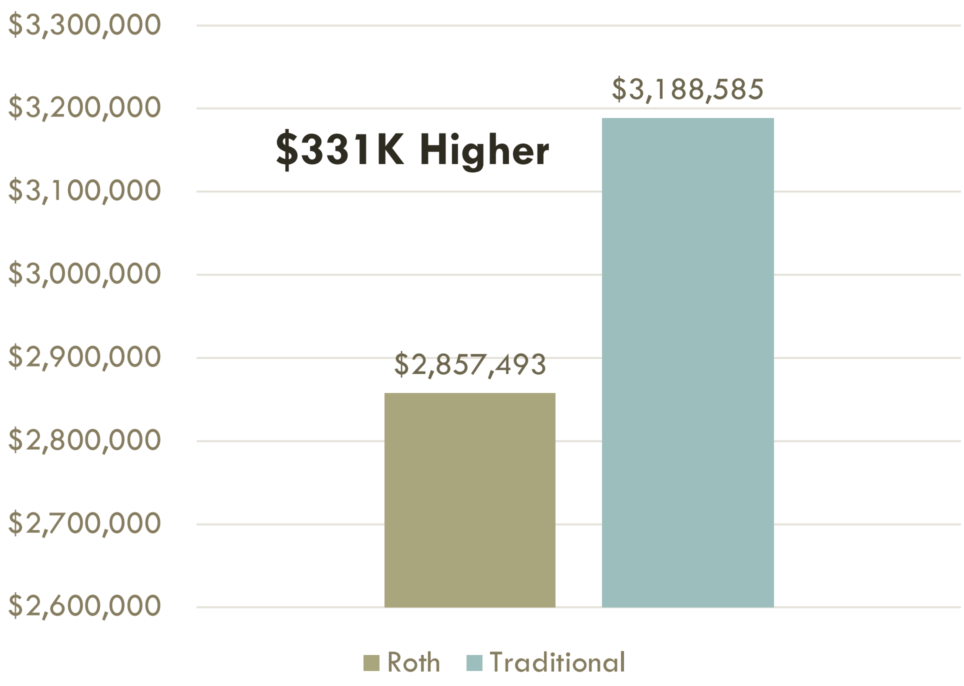
Roth

- Not currently deductible for taxes
- No taxes at withdrawal even for heirs
- No RMDs in a ROTH IRA
- Can continue making contributions after 70 ½
- Choose if expect to pay same or higher taxes at retirement

ROTH VS TRADITIONAL 401K



Start at 21, retire at 65, save $10K/year, 7% compound interest, 22% tax rate while working, 12% tax rate retirement



Start at 21, retire at 65, save $12.2K in Traditional and $10k/year in Roth, 7% compound interest, 22% tax rate while working, 12% tax rate retirement

HOW MUCH OF A NEST EGG DO I NEED FOR RETIREMENT?

Age	Salary Multiple
35	1x
45	3x
55	5x
67	8x

Assumptions: save 15% of salary each year, work 42 years, don't live past 92, and you have an annual return of 5.5%. At the end, with social security, will have 85% of pre-tax salary at retirement.

SOCIAL SECURITY

- Replaces about 40 percent of the average wage earner's income, and retirees typically need 60-70 percent or more of their pre-retirement income to live comfortably
- Recommend getting together with a social security expert to analyze your situation and to maximize benefits
- You need at least 40 credits, or 10 years, of Social Security wages to qualify for retirement benefits.
- Benefits are based on your highest 35 years of earnings
- Social security benefits ARE subject to income taxes, potentially
- According to the Chief Actuary of the Social Security system, by 2034, incoming taxes will be enough to pay for only 79% of scheduled benefits.

SOCIAL SECURITY, CONT.

- Born after 1960 – retirement age is 67 – age get 100% of benefits
- Earliest age to get benefits: 62 (but you get only 70% of your full benefit ***permanently***)
- For each year you delay — up to age 70 — your benefit goes up by 8 percent (delay until 70, benefit would be 24% higher. If the benefit is $2,000 a month, the extra 24 percent amounts to an additional $480 a month.
- Spousal benefits –
  - Can collect as soon as 1) reach 62 2) spouse has started collecting their own retirement benefit
  - If you claim spousal benefits prior to your full retirement age, they will be reduced. If retire at 62, benefits are reduced 35%
  - Maximum benefit is half of spouse's primary insurance amount (half of the amount spouse would get per month, if claimed at full retirement age)
  - If your spouse dies and they delayed retirement, you get their retirement benefits including stepped-up benefits

EXAMPLE

- John Smith has a $2000-a-month retirement benefit (retired at 67). His wife Jane gets $1,000 as a 50% spousal benefit. Total family income from Social Security is $3,000 a month. When John dies, Jane will get $2,000 a month as her survivor benefit. Total income for Jane as a widow is $2,000 a month (2/3 of amount before).
- John Smith has a $2,480-a-month retirement benefit (retired at 70). His wife Jane gets $1,000 as a 50% spousal benefit. Total family income from Social Security is $3,480 a month. When John dies, Jane will get $2,480 a month as her survivor benefit. Total income for Jane as a widow is $2,480 a month (~71% of amount before and **24% more than if John had not delayed**).

MEDICARE

- **When to enroll?**

If you're eligible for Medicare when you turn 65, you can sign up during the 7-month period that:

Begins 3 months before the month you turn 65

Includes the month you turn 65

Ends 3 months after the month you turn 65

- **Part A: Hospital Insurance**
  - For most people, there is no cost for insurance (need 40 credits of employment)
  - Deductible is $1,340 in 2018 (covers first 60 days)
  - 61 – 90th day: coinsurance is $335 per day for hospitalization
  - $670 per day for lifetime reserve days (get 60 lifetime days)
  - Beyond lifetime reserve days: all costs

MEDICARE

- **Part B: physician services, outpatient hospital services, certain home health services, durable medical equipment, and other items.**
  - Monthly premium (for most people): $134
  - Annual deductible is $183 and then you pay 20% of cost – beware – no cap on cost
- **Part D – Prescription Drugs**
  - 2018 base premium for most people $35.02
  - If you don't sign up when you are first eligible and later add, you have to pay an ongoing penalty

- To close Part A, B, and D gaps, most recipients enroll in some form of Medigap insurance or in a Medicare Advantage plan (Part C).
- The 2016 Medicare Trustees Report projects that the Hospital Insurance (HI) Trust Fund will remain solvent until 2028, at which point, HI revenues are projected to cover 87 percent of program costs.

LONG-TERM CARE: THE FACTS

- Medicare does not cover long-term care (custodial) costs
- Medicaid does cover long-term care costs in very limited situations
- The typical 65-year-old has a 52% chance of needing long-term care services and supports at some point
- 67% to 70% of seniors who do go into a nursing home are discharged in 90 days, and after two years, less than 6% of those admitted will still be there.
- The average tab for long-term care is $138,000.

LONG-TERM CARE INSURANCE

- Want to buy around 55 – cost will be around $3500/year/couple
- Warning: long-term care insurance is known for high annual rate increases
- Partnership plans – protect savings to $100K and then Medicaid will take over expenses.
- Most policies don't pay anything until a person has been in a nursing home for more than 90 days.
- You only want to consider companies that have been rated 'A++' by A.M. Best
- Want compound inflation protection on benefits

FUNERAL EXPENSES

- Average cost is about $12,000
- Instead of prepaying with a funeral home, consider setting up a burial “payable on death” (POD) account.
  - Do not make the funeral director your beneficiary – make a trusted family member or friend
  - Funds will be released immediately after death without the delay of probate
  - Account remains in your name and money can be withdrawn at any time
- Federal law requires funeral homes to give you written price lists for the products and services it offers.
- You can supply your own casket from a third party and a funeral home should not charge you a fee for doing so or refuse to handle it.
- Embalming is not necessary or legally required if the body is buried or cremated within 24 hours after death.
- Social security pays a 1 time death payment of $255
- If the deceased was receiving social security benefits, you must return the benefit received for the month of death or any later months

FINAL BIBLICAL ENCOURAGEMENT

"Therefore I tell you, do not be anxious about your life, what you will eat or what you will drink, nor about your body, what you will put on. Is not life more than food, and the body more than clothing? Look at the birds in the air: they neither sow nor reap nor gather into barns, and yet your heavenly Father feeds them. Are you not more value than they? And which of you by being anxious can add a single hour to the span of life? And why are you anxious about clothing? Consider the lilies of the field, how they grow: they neither toil nor spin, yet I tell you, even Solomon in all his glory was not arrayed like one of these. But if God so clothes the grass of the field, which today is alive and tomorrow is thrown into the oven, will he not much more clothe you, O you of little faith? Therefore do not be anxious, saying, 'What shall we eat?' or 'What shall we drink?' or 'What shall we wear?' For the Gentiles seek after all these things, and your heavenly Father knows that you need them all. But seek first the kingdom of God and his righteousness, and all these things will be added to you."
Matthew 6:25-33