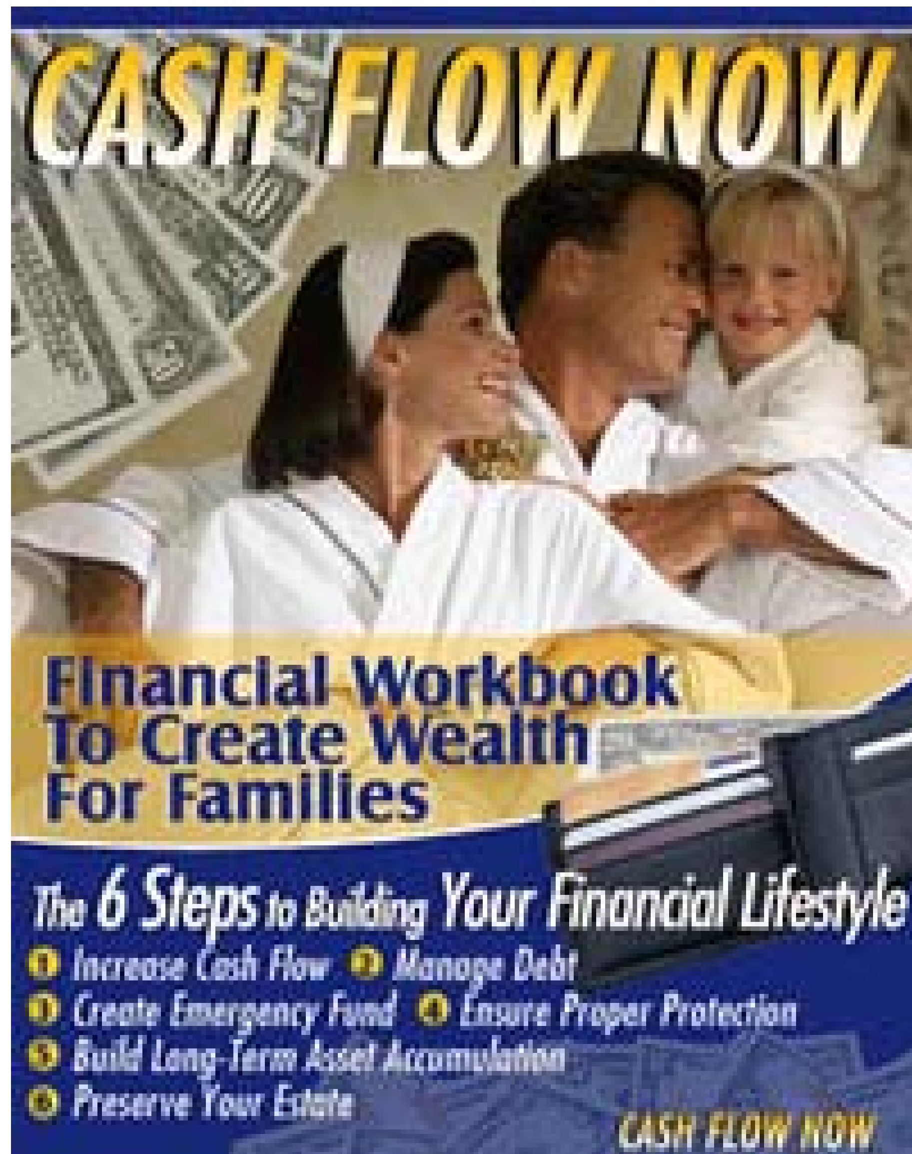


# Financial Workbook

www. 2cashflownow.com

The information and statements contained in this financial workbook e-book are intended only to introduce and familiarize the reader with Cash Flow Now, its mission and certain financial concepts in general. This financial workbook is intended to help the reader compile and inventory personal financial data that will guide him or her through the six steps outlined here. Information provided on various tax aspects is general in nature and not intended to be tax or legal advice. Consult your own tax advisor for such advice.

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***Special thanks to all the Associates who helped with this Financial Workbook.***

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# Six Steps To Building Your Financial Lifestyle

### 1) INCREASE CASH FLOW
**Earn additional income**
**Manage expenses**

### 2) MANAGE DEBT
**Consolidate debt**
**Eliminate debt**

### 3) CREATE EMERGENCY FUND
**Save three months income**
**Prepare for emergency expenses**

### 4) ENSURE PROPER PROTECTION
**Protect against loss of income**
**Protect family assets**

### 5) BUILD LONG-TERM SAVINGS
**Outpace inflation**
**Minimize taxation**

### 6) PRESERVE YOUR ESTATE
**Help limit probate costs**
**Build a family legacy**

Today families should have a long-term asset accumulation program to outpace inflation and reduce taxation

---

# Use the Rule of 72

---

*How long will it take to double your money if you earn a specific rate of return?*
*The Rule of 72 will show you*

| AGE | 4% | AGE | 6% | AGE | 8% | AGE | 12% |
|---|---|---|---|---|---|---|---|
| Money doubles every 18 years | | Money doubles every 12 years | | Money doubles every 9 years | | Money doubles every 6 years | |
| 29 | $10,000 | 29 | $10,000 | 29 | $10,000 | 29 | $10,000 |
| 47 | $20,000 | 41 | $20,000 | 38 | $20,000 | 35 | $20,000 |
| 65 | $40,000 | 53 | $40,000 | 47 | $40,000 | 41 | $40,000 |
| | | 65 | $80,000 | 56 | $80,000 | 47 | $80,000 |
| | | | | 65 | $160,000 | 53 | $160,000 |
| | | | | | | 59 | $320,000 |
| | | | | | | 65 | $640,000 |

**These illustrations and examples are provided for information purposes only. Carefully consider your own financial situation, tax status, lifestyle, age, health and other pertinent individual factors before instituting any of these examples. The Rule of 72 is a mathematical concept that approximates the number of years it would take to double the principal at a constant rate of return. Consult your tax advisor. Tax rates are subject to change. Financial information has been obtained from sources believed to be accurate. However, no assurance can be made as to the accuracy of these assumptions.**

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# Tell Yourself About ....

*(Please print this page and next page for your records)*

**FINANCIAL GOALS**

*(Rank in order of priortiy-1 being the most important)*

**RANK**
**___Reduce Debt/ Pay Off Mortgage**
**___Increase Cash Flow**
**___Maximize Retirement Accounts**
**___Achieve Financial Independence**
**___Maximize Tax Advantages**
**___Fund College**
**___Buy A New Home**
**___Build Savings For Unexpected Expenses**

**At what age do you want to retire?____**
**In today's dollars, how much income on a monthly basis would you like during retirement?**
**$_______________/mo**
**And for how many years?_________**
**Would you like to have inflation considered/calculated for your strategy?**
**Y___ or N___ _______%**
**Would you like to have Social Security considered/calculated for your strategy?**
**Y___ or N___ _______%**
**Would you like to provide for your children's education?**
**All___ or Partial___**
**Approximate costs for education:**
**$______________________**
**Amount saved $____________**
**Month/Annual $____________**

**DATE_______________**

**___Own A Business**
**___Vacation/Travel**
**___Make A Major Purchase (i.e. car, boat, motorcycle, etc)**
**___Explore Investment Options**
**___Explore Estate Planning**
**___Maintain Standard Of Living In An Untimely Death/Disability**
**___Other Goals**

**Rate yourself as an investor:**
**Aggressive___Balanced___**
**Conservative___ Defensive___**
**Undetermined___**
**Have you had a Strategic Allocation Model prepared for you? Y___ or N___**
**Do you think taxes will go up or down in the future?**
**Up___ or Down___**
**Current federal tax bracket:_______%**
**State tax bracket:_______%**
**What was the amount of last years refund?$______________**
**Do you expect a lump sum inheritance in the near future?**
**Y___ or N___**
**Approximate amount $_____________**
**When was the last time you reviewed your financial goals?**
**____/_______/____**
**With whom? _______________**
**Results:____________________**

**8 Questions to ask yourself.**

1. **What is your monthly income?**
2. **What are your monthly expenses?**
3. **What assets do you have?**
4. **What are your liabilities?**
5. **What else?**
6. **What do you want?**
7. **What skills do you have to make money?**
8. **Are you willing to create and execute the *Wealth Cycle Process*?**
   ***(open a separate bank account and pay yourself first)***

# Financial

*(Please print this page and the next page for your records)*

**CASH FLOW** **DATE___________________**

**How would you rate your cash flow position?**
**I don't know___ poor___ fair___ good___ excellent___**
**How important is it to you to know where your money is going?**
**not important___ somewhat___ moderately___ very___**
**What method are you using to track your monthly cash flow?**
**checkbook___ budget___ computer program___ nothing___**
**What is your annual gross income?**
**Client (A)_________ Client (B)_________**
**Was there a tax refund within the last three years? Yes___ No___**
**(A)___________ (B)__________ paid (A)___________ (B)__________**
**Will anything change this year? Yes___ No___**
**How many exemptions do you claim on your W-4? (A)____ (B)____**
**Do you have copies of your recent pay stubs? Yes___ No___**

**DEBT MANAGEMENT**

**Do you have a current plan for getting out of debt? Yes___ No___**
**LOAN NAME: PAYMENT: BALANCE: RATE: TERM: MARKET VALUE:**
**Mortgage____________________________________________________________**
**2nd Mortgage________________________________________________________**
**Car Loan 1__________________________________________________________**
**Car Loan 2__________________________________________________________**
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________
**Are you considering refinancing? Yes___ No___**
**How long are you planning to live in your home? years___ months___**

**EMERGENCY FUND**

**Do you have an emergency fund? Yes___ No___**
**How much would you like to have in an emergency fund? $____________**

**Monthly Deposit: Balance: Rate %:**
**Do you have a savings account established? Yes___ No___**
___________________________________________________
**Do you have a checking account established? Yes___ No___**
___________________________________________________
**Do you have a money market account established? Yes___ No___**
___________________________________________________

**Do you have CD's? Yes___ No___**
**BANK NAME: BALANCE: RATE %: MATURITY DATE:**
________________________________________________________________
________________________________________________________________
________________________________________________________________

# Personal NetWorth Statement

*(Please print this page and the next page for your records)*

**DATE**________________________

## CASH FLOW (MONTHLY)

**Your Income**
**First income (Net take home)**

_________________________________

**Second income (Net take home)**

_________________________________

**Dividends, interest, and capital gains**

_________________________________

**Annuities, pensions, and Social Security (self)**_________________________
**Income on real property**

_________________________________

**Other** ____________________________
**Total Income:** ____________________

__________________________________________

## YOUR EXPENSES (MONTHLY)

**Fixed**
**Mortgage/rent** ____________________
**Property taxes** ____________________
**Association/homeowner's fee**

________________________

**Utilities (i.e. gas, electric, water, etc.)**

_________________________________

**Cable T.V.** ________________________
**Telephone** ________________________
**Car payment** ______________________
**Insurance premiums(specific)**
**Car** _____________________________
**Life** _____________________________
**Homeowners**______________________
**Health**__________________________
**Loans, credit cards(specific)**
**Mastercard**______________________
**Visa**______________________________
**Other**____________________________
**Other**____________________________
**Other**____________________________

**Variable**
**Food**_____________________________
**Clothing**__________________________
**Childcare**_________________________

## WHAT YOU OWN

## LIQUID ASSETS

**Checking accounts**________________
**Savings accounts**_________________
**Money market funds**______________
**Cash value of life insurance**

_________________________________

**Other liquid assets**________________

_________________________________

**Total Liquid Assets:**______________

## INVESTMENT ASSETS

**Mutual funds**______________________
**Stocks**___________________________
**Bonds**____________________________
**Certificates of deposits**______________
**Retirement plans:**
**IRA's**_____________________________
**401(K) plan**_______________________
**Company pension plan**______________
**Other retirement plans**______________
**Other investment assets**_____________

**Total Investment Assets:** _____________

## PERSONAL ASSETS

**Residence**__________________________
**Vacation property**____________________
**Rental property**______________________
**# Owned** ___________________________

**Other personal assets:**_________________

_____________________________________

**Total Personal Assets:**________________

## TOTAL ASSETS_________________

__________________________________________

**Tuition or education expenses**___________________________
**Car maintenance/gas**_________________
**Entertainment**______________________
**Gifts and donations**__________________

**Total Income:**____________________

**Minus Total Expenses:(**________________**)**

## YOUR MONTHLY

## CASH FLOW________________________

## WHAT YOU OWE

## LIABILITIES

**Credit card balances**_________________
__________________________________
**Educational loans**_________________
**Car loans**_________________________
__________________________________
**Personal installment loans**
**1)**________________________________
**2)**________________________________
**Other loans**_______________________
**Mortgage**_________________________
_________________________________
**Other liabilities**____________________
_________________________________
**Total Assets:**______________________

**Minus Total Liabilities:(**________________**)**

## YOUR PERSONAL

## NET WORTH________________________

# INCREASE CASH FLOW

## TAX REFUND

For every $600.00 received from federal tax refund, you can increase your withholding allowances on your W-4 form by one. This increases your monthly cash flow by $50.00.

## MORTGAGE INSURANCE

Private Mortgage Insurance (PMI):
Drop once equity reaches 20% of home value.
Mortgage Life Insurance:
Drop immediately and save up to 800%.

## REAL ESTATE TAXES AND INSURANCE

Escrow your account utilizing a money market fund with check-writing privileges.

## DROP CREDIT LIFE INSURANCE

Cancel all credit life insurance on car loans, mortgages and credit cards.

## RAISE YOUR DEDUCTIBLE ON AUTO AND HOMEOWNER POLICIES

Increasing your deductible to $500.00 will save 30%, $1,000.00 as much as 60%.

Eliminate duplicate medical coverage and save $100.00.
Drop death, dismemberment and loss of sight coverage from your auto policy and save $50.00.

Get a credit card with a $1,000.00 limit if you don't have an emergency fund and stash it in a drawer.

## USE A BUY-TERM-AND-INVEST-THE-DIFFERENCE APPROACH

Potentially reduce premiums.
Reinvest cash values.
Drop expensive riders.

## OWN A BUSINESS

You may qualify for tax deductible expenditures, such as your car, home, vacations, membership fees, travel expenses, computer, furniture, etc.

## QUALIFIED PLANS

For every $1,000.00 saved, you keep ? %-based on your tax bracket.

## REPOSITION LOW-INTEREST SAVINGS

## WANTS MINUS NEEDS

Cash flow is a decision!

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# BUYING A HOME

Whether you are just getting started with your first home purchase, upgrading to accommodate a growing family, or building your dream home, you need to determine how much of home you can afford.

The **House Fund Estimator** will give you basic guidelines that most lenders will require before your loan package can be submitted for underwriting and approval.

Since the purchase of a home is generally the largest investment you will make in your lifetime, it can be a very stressful time until your final closing. Understanding many of the variables involved can help take the mystery out of the loan process.

## How much of a home can I afford?

There are four major factors in considering how much house you can afford.

### 1. CREDIT HISTORY

You will be asked to authorize your loan officer to pull a credit report from a major credit bureau. It will be one of the first guidelines used to determine the type of loan you qualify for. If your credit is clean- without more than a few problems- you will probably qualify for "A" paper, which gives the best rate and terms. However, if you have late payments, judgments, liens or bankruptcies in your past (10 years), you will probably qualify for "B","C", or "D" paper, which increases the interest rate and other qualifications that have to be met. Your loan officer will do a preliminary approval to determine your rating.

### 2. DOWN PAYMENT

Most lenders like to see a 10% down on the purchase price of the home. However, some special loan programs will allow 5% or less, typically with an increased rate of interest. Generally 10% to 20% is recommended. If you have at least 20% down, you could eliminate PMI (Private Mortgage Insurance). PMI

will typically save you .5% of the market value of the home per year in insurance payments. So for a $100,000 home, you could eliminate $500 per year.

## 3. TYPE OF LOAN

There are so many loan programs today to choose from, such as Adjustable Rate Mortgages (ARM) for one, three, five or seven years. There are fixed-rate mortgages for 15, 20, 30 or 40 years. There are No-Income Verification (NIV) loans and many more. Your loan officer will be helpful in identifying the best program for your goals.

Keep in mind that mortgage interest is one of the few remaining tax deductions left to the taxpayers, so leveraging the use of money will give you all sorts of opportunities to put excess dollars to work for you.

## 4. MONTHLY PAYMENT/RATIOS

Once you've identified the type of loan, rate, and term, you can calculate your monthly principal and interest (P&I) payment. But you must also add to the payment your monthly property taxes and insurance premium. This payment cannot exceed 28% of your monthly gross income and is called a front-end ratio. The back-end ratio cannot exceed 38% of your monthly income, which is a total of your mortgage payment plus all other monthly payments on installment debt. This step is critical to identifying how much of a home is affordable. Your loan officer is trained to look at all of these factors.

# HOUSE FUND ESTIMATOR

***The House Fund Estimator will give an estimate of the amount of mortgage affordable, monthly payment, tax savings and down payment required.***

---

**1. ANNUAL INCOME(S)** ***(GROSS)*** **$__________________________**

**2. Multiple by 2** **X 2 =** **$__________________________**

**3. Total mortgage allowed** = **$__________________________**

**4. Down payment** + **$__________________________**

**5. Total sale price of home** = **$__________________________**

---

**Total mortgage allowed** **Line (3)** **$__________________________**

**Divided by 1000** =__________________________**units**

**Monthly payment per 1000** ***(see P&I chart next page)*** **X__________________________**

**Monthly mortgage payment** = **$__________________________**

**X 12** = **$__________________________**

**Total tax savings**

**X______% tax bracket** = **$__________________________**

---

**1.** **$________________________** **Gross for down payment** ***(recommended 10%-20%)***

**2.** **$________________________** **divided by 1000**

**3.** **$________________________** **X multiplier for monthly savings @ 5%** ***(see chart on next page)***

**4.** **$________________________** **= TOTAL MONTHLY SAVINGS REQUIRED**

# Monthly Savings Required per 1000 (5%)

| 6 MO | 12 MO | 18 MO | 24 MO | 30 MO | 36 MO | 42 MO | 48 MO |
|---|---|---|---|---|---|---|---|
| $164.25 | $81.10 | $53.29 | $39.54 | $31.23 | $25.70 | $21.75 | $18.78 |

***Hypothetical illustration only. Interest rates fluctuate. Illustration does not represent actual return of any product or investment. Monthly savings required per $1,000 may be more or less based on rate of return.***

**P&I CHART**
**Monthly payment**
**Per $1,000**

| % | 15-yr | 30-yr |
|---|---|---|
| 6.50 | 8.72 | 6.33 |
| 6.75 | 8.85 | 6.49 |
| 7.00 | 8.99 | 6.66 |
| 7.25 | 9.13 | 6.83 |
| 7.50 | 9.28 | 7.00 |
| 7.75 | 9.42 | 7.17 |
| 8.00 | 9.56 | 7.34 |
| 8.25 | 9.71 | 7.52 |
| 8.50 | 9.85 | 7.69 |
| 8.75 | 10.00 | 7.87 |
| 9.00 | 10.15 | 8.05 |
| 9.25 | 10.30 | 8.23 |
| 9.50 | 10.45 | 8.41 |
| 9.75 | 10.60 | 8.60 |
| 10.00 | 10.75 | 8.78 |
| 10.25 | 10.90 | 8.97 |
| 10.50 | 11.06 | 9.15 |
| 10.75 | 11.21 | 9.34 |
| 11.00 | 11.37 | 9.53 |
| 11.25 | 11.53 | 9.72 |
| 11.50 | 11.69 | 9.91 |
| 11.75 | 11.85 | 10.10 |
| 12.00 | 12.01 | 10.29 |

***Financial information has been from sources believed to be accurate. However, no assurances can be made as to the accuracy of these assumptions.***

# COLLEGE PLANNING

If you're like most young parents, you want to save for a new home and you'd like to put something away for retirement. With so many financial obligations, it's hard to think about beginning a college education fund for your children, too. But rising college costs means that an early start and a regular savings program can give you a leg up on meeting yet another important financial goal.

Most of us are aware that the cost of higher education is on the rise, but do you know how much? According to the American Council of Education between 1987 and 1996, the instructional cost per student at public universities increased 57%. If you look at private four-year colleges and universities over the same period, the increase jumps to almost 70%, and the costs keep on rising. An early start and careful planning can help make a college education more affordable than you think.

According to the College Board, a non-profit organization specializing in higher education issues, in the past five years, tuition and fees have increased at an average annual rate of 8.4% at private institutions and 6.2% at public schools. This compares to an average annual rate of inflation of 4.1% during the same period.

## Rule #1: Invest college money in your name, not your kids!

A lot of parents like to put their child's college savings in their kid's name through Uniform Transfers to Minors Act accounts **(UTMA's)** or Uniform Gifts to Minors Act **(UGMA's).** In most cases, forget about it. Why? Three reasons immediately come to mind.

The biggest reason is that it can hurt your child's chances of receiving financial aid. Colleges count a much larger percentage of a student's assets than their parents' when calculating aid packages. Any tax savings you may have received from transferring your

assets into their name could be dwarfed by higher education costs.

Second, some investments may provide a tax savings if the parent is the owner, but not the child. For example, the interest on certain U.S. savings bonds is exempt from federal income tax only if a parent is the owner and the eligibility requirements are met.

Third, UTMA's and UGMA's need to be turned over to your children between 18 and 21. However, there is no requirement that this money actually be used for college, your original intent. Your child might come up with a hundred "better" uses for that money and you'd be powerless to control the expenditures at that point.

However, having said all this, there may be times when you want to save in your child's name such as blended families where divorce is more than a possibility, for estate tax reasons, or where a lack of self-discipline could lead you to raid the college fund cookie jar to pay for vacations or other expenses.

## Funding strategies

Parents who have a substantial amount of cash they can sock away for 10 years or longer are off to a good start. Most families, though, must set aside a little money at a time on a regular basis. A systematic investment plan known as *dollar-cost averaging* can work well. This plan requires discipline to make periodic contributions to a college fund, which can be increased as parents' salaries increase, as well as the ability to continue regular purchases through all types of economic conditions. Dollar-cost averaging cannot assure a profit or protect against a loss in declining markets but can be effective.

Unfortunately, funds available for scholarships and financial aid have decreased. **SLMA** (Student Loan Mortgage Association) has had a serious difficulty with past loan defaults. New restrictions, including an asset check of the parents' financial condition, are done to determine if the family is the first available source. Although educational loans are always an option, they can burden a graduate with large debts. Most families

will need to rely heavily on their own savings and investments to send their children to college.

In fact, many of the scholarship committees are simply looking for a well-balanced student. Instead, many seek out those who are giving back to their local community. So if your child isn't already doing so, it may be worthwhile to sign him or her for a bit of community service, such as volunteering to organize local Special Olympic events. Not only will this provide something for their essay-and yes, most of these scholarships do require some type of personal statement-but the organization itself may even offer scholarships to those who lend a helping hand. At a private university this may do little more than cover the book bill. Of course, when you're talking about free money, every little bit counts.

Parents should also be aware that winning scholarship money could decrease a child's total financial-aid package. Many schools will decrease your aid dollar for dollar based on any money you're awarded, including grant money.

## Choose tax-advantage savings vehicles

Current tax legislation known as the Economic Growth and Tax Relief Reconciliation Act of 2001 provides expanded tax-advantaged incentives for families to plan for funding college, rather than relying heavily on financing.

## Education IRA *(renamed to the Coverdell Education Savings Account)*

The new law greatly expands Coverdell ESAs started in 2002. This law allows Coverdell ESAs to be used for elementary and secondary school expenses, including tuition at private and parochial schools, as well as certain expenses for special –needs students. Eligible expenses include student-activity fees, fees for course related books, supplies, equipment and some boarding fees. Prior to the 2001 Act, education IRAs could only be used to save for a child's college education.

While contributions to the ESA are not deductible, the earnings do accumulate on a tax-free basis, provided distributions are used to cover qualified expenses. For amounts withdrawn that are not used to cover qualified expenses, the earnings will be treated as ordinary income and may be subject to a 10% early-distribution penalty for beneficiaries under the age 59.5.

Similar to the deadlines for making contributions to Roth and Traditional IRAs, the deadline for making a contribution to an ESA for one year is April 15th the following year.

**Who Can Contribute to an ESA?**

One of the most attractive features of the ESA is that anyone who meets certain income requirements can contribute to the account on behalf of the designated beneficiary. This includes aunts, grandparents, parents, friends and even the beneficiary him/herself.

In order to contribute to an ESA, the contributor is not required to have income. Should, however, an individual's income exceed certain limits, he or she is not eligible to contribute to an ESA. If the contributor is married and files a joint income tax return, he or she cannot contribute to an ESA if his or her modified adjusted gross income (MAGI) is $220,000 or more. The limit of $2,000 is gradually reduced once the MAGI falls into the range of $190,000 to $220,000. For other taxpayers who are not married or file a joint income-tax return, the range is between $95,000 and $110,000, so individuals whose MAGI is $110,000 or more are ineligible to contribute to an ESA.

Contributions that exceed the $2,000 limit or contributions made by individuals who exceed the income limits stated above are considered excess contributions and could be subjected to IRS penalties.

## Qualified Tuition Programs & 529 plans

In an effort to help America's families shoulder these related cost, many states now offer Qualified Tuition Programs (QTPs), and 529 plans. These tax-advantaged

national college savings programs were authorized and created under section 529 of the Internal Revenue Code. **QTPs and 529** plans were established to allow you either to prepay or contribute to an account established for paying the beneficiary's higher education expenses at certain institutions. Check with your financial institution or with the educational institution to determine expenses that qualify. Your child's QTP/529 Plan may be established and maintained by a state, an agency of the state, or by an educational institution.

A QTP/529 Plan is a powerful way to save for a child's higher education because the money you invest enjoys tax-free earnings as well as tax-free accumulation. A QTP/529 Plan may be established by anyone, including non-relatives, for a designated beneficiary. But contributions should not exceed the limits as set by the state. So, if a plan has more than one contributor, these contributors should inform each other of their contributions to ensure they don't exceed the limits.

**Two Types of QTP/529 Plans**

Before choosing a QTP/529 Plan, be aware of the two major types: the college savings plan and the prepaid tuition program.

*College Savings Plan*

Under a college savings plan, amounts are contributed up to the dollar limit of the plan, which can be as much as $300,000. Investors may be allowed to choose the investments from a list provided by the plan manager. In some college savings plans, the investment options are age based, with the most risky investments made available to younger individuals. Since the investor bears the risk of the investments, the amount that is eventually available for eligible education expenses will be affected by the rate of return on the investments.

The assets in a college savings plan may be used to cover eligible expenses at any eligible educational institution.

*Prepaid Tuition Program*

Under a prepaid tuition program, eligible expenses for a fixed period of time or a fixed number of credits are prepaid at an eligible educational institution. For example, an individual may make prepayments for two future semesters of college at today's cost. The prepayment guarantees the beneficiary two semesters, regardless of the cost in the future. This means that the program manager bears the risks of the investments. Contributions are limited to the amounts necessary to pay the beneficiary's qualified education expenses.

Similar to the ESA, the QTP and 529 plans may be transferred to a family member.

# RETIREMENT PLANNING

Retirement planning can be compared to taking care of your teeth or backing up your computer hard drive. By the time you remember to get serious, it may often be to late.

An effective system for backing up both your computer and your retirement plan requires advanced planning. You should have a schedule for making regular backups and a system for rotating and safekeeping your backup disks, tapes, CD's, or DVD's. Retirement planning also requires regular maintenance and scheduling, which includes some number-crunching and goal-setting.

What are your retirement dreams? A decade ago, it was much simpler to develop a long-term strategy for financial independence. Now it's what you don't know about money that could hurt more than what you know. The rules of the money game have changed and can sabotage even the best laid plans unless you factor new solutions for your financial strategies.

While retirement means many things to many people, for it is meant to be the time in people's lives where they have both the luxury of time and the financial resources to go where they want and do what they want without limitations or restriction. Whatever your personal picture of retirement looks like, your chance of living the life you want will be largely determined by how well you planned and saved for it during the peak earning years. With all of the different retirement planning options available, it is important for you and your investment professional to work together to determine what investment options will provide you with the best retirement lifestyle.

When it comes to saving for retirement, college tuition, or any goal that will require significant monetary resources, it is never too early to start. Time can be a formidable ally. The earlier you start saving and

investing, especially in tax-deferred accounts, the longer and more effectively your money will be able to work for you. Perhaps the most important reason why you should begin investing as soon as possible is a financial term called "compounding". Compounding is the principle of earning money on money that is invested in a vehicle that yields interest, dividends, or capital gains. Investing early also helps to ride out market volatility.

Another tough decision is how to reallocate your investments to get an adequate cash flow. Now that people live longer in retirement, experts question the traditional strategy of shifting most of one's portfolio to bonds or other fixed-income vehicles, because the earnings from those securities aren't likely to keep pace with equity investments.

Maintaining a very conservative portfolio is one of the biggest mistakes investors make at retirement. Inflation is a bigger risk over the long run than volatility risk. So, despite the stock market downturn, this allocation for a person two to five years away from retirement. 10% cash equivalents, such as U.S. Treasury notes or a money-market fund, 30% in bonds, and 60% in large-cap, small-cap and international stocks.

Cash is especially important: Advisors say you should have enough (including guaranteed income from a pension or Social Security) for up to two years of expenses so that you won't need to sell investments during a downturn.

Your decisions will be very personal, but the ideal is to grow your nest egg to retirement size before you retire and keep it on course with the right mix of low-to moderate-risk investments.

You'll need to have some percentage of your portfolio growing in value during your retirement years because the cost of living will be growing, too. Back in the early 1970's, most houses cost less than $50,000, new cars cost a few thousand dollars and gasoline was around a quarter per gallon. Times change and so do prices.

The right retirement portfolio is a matter of finding homeostasis –the proper balance for your personal and

financial situation.  As you seek to fight inflation, don't assume you need too high a growth rate.  Run the numbers occasionally to figure out how you're doing.

## Baby Boomer anxiety

As a **baby boomer** *(1946 - 1964)* moves up the age ladder they tend to start looking more for comfort rather than thrills. That means taking fewer risks, fewer high rides.

But if you're like many boomers, you have a bit of a dilemma: you are trying to play catch-up on retirement planning at the same time as paying or saving for your children's college education.  In addition, you may have switched jobs too often to build up a healthy, vested retirement account or have just put off the inevitable need for a nest egg.  So, how do you balance risk with the need for high returns?

Your best bet is to balance your assets to avoid becoming top heavy in any one company, industry or type of investment.

## Retirees should avoid all the crazy rides

Once you're closing in on retirement or are retired, you look at your nest egg differently.  You don't want any new thrills.  Rather, at this point, your goal is to avoid running out of money during your lifetime.

For many this means converting an increasing proportion of those "high risk" stocks into "safe" bonds. But retirees face the hidden danger of inflation.  If portfolios get tied up too much into fixed-rate bonds, your buying power may evaporate over the years.  So, while your portfolio should continue to shift towards bonds you should keep in hand in the stock market.

The key to having a smooth retirement ride are discipline, knowledge and vigilance.

## The Facts

Longer life expectancies, coupled with less reliance on company pension plans and Social Security, mean you will need even greater retirement savings than previous generations.  Once inflation is factored in, you may be

looking at the need for accumulating a pretty sizable nest egg.

Everyone wants a golden retirement…but saving for retirement is no easy task. With Social Security's assets being consumed and the number of workers that will support it shrinking, we will have to rely more on our personal savings when it's time to retire.

Today, we have a myriad of options to help each of us prepare. Yet, without a plan of action, many find themselves falling short when it's time to retire.

## Adapt to the times

Some of the sophisticated financial planning tools out there give you a percentage estimate of the likelihood you'll have enough to live on during retirement. Yet no one knows for sure. That doesn't mean you should throw your hands up into the air. Use the financial tools out there to get a handle on your situation. Stay involved with your investments. Keep your eyes open. Don't ignore bad news-adapt to it.

Delaying retirement will most likely result in the increase the size of your nest egg.

And if you have to work longer and delay retirement, you won't be alone. You'll be part of the latest trend as other Baby Boomers lengthen their employment.

# ESTATE PLANNING

Everyone needs to plan an estate—the challenge is to find out where to begin.

Whatever your age, your long-term financial strategy should include provisions for maintaining control over the distribution of your estate.

It's important that you consider how you want your assets to pass to your heirs, as well as how to alleviate the stress of the administration burden that will confront them. If you have extensive assets, you may also consider steps to help minimize estate taxes.

Through our lives, we spend so much time worrying about making a decent living. Questions like, "Will we have enough for a new house? Can I afford that new car? Can I take that trip I always wanted to take?"

But the years pass. You've built up an estate, and achieved success. Your focus starts shifting away from taking care of yourself, to ensuring your loved ones are cared for after you're gone. That's what estate planning is all about.

Probably the toughest part of planning your own estate is that it requires you to think about what things will be like after you're gone. After all, nobody likes to think of their own mortality.

The sooner you act and begin developing your family's estate plan, the sooner you'll be able to sleep easier, knowing your family is taken care of.

## Talk to your family

Any estate plan will effect your family, not you. Discuss family member's wishes, and identify how they want assets handled. Also make clear your own wishes. An open dialogue will reduce the chances a family member could contest your plan later. And if you suspect there could be trouble down the road, consider

implementing an advanced strategy that is more difficult to contest.

Don't overlook some of life's possibilities and inevitabilities. You may become incapacitated and require nursing home or home care assistance. A good long-term care policy can keep you afloat financially. Also prepare for incapacity by signing the proper documents such as a durable limited power of attorney so capable, trustworthy individuals can carry out your financial decisions in your place. Proper estate planning can save income tax and death tax for you, your spouse and your loved ones.

## The probate process

If there is a will, the appointed executor submits the will to the probate court along with a petition for probate. The next step is for the court to validate the will and to approve the appointment of the person named as executor. If there is no will, an administrator is appointed to handle the estate affairs. Family members, including ones you might not want to serve, are generally given priority (this is a very good reason in itself to have a will completed and to name several alternate choices for executor in case your first choice can't or won't be able to serve). A notice about the probate and the time period for filing a claim against the estate is published in a newspaper.

The executor or administrator locates all of the assets subject to the probate court's jurisdiction and then has them inventoried and appraised. Assets may be sold to raise cash. Debts and taxes (income tax and possibly even death tax taxes) are paid and the required tax returns are filed. Final personal income tax returns for the person who died are required as well as income tax returns for the probate estate itself. Depending on the size of the estate, federal and state death tax returns may also need to be filed. Claims against the estate are paid and/or contested.

Once all the dust has settled and the amount on hand that's available to distribute is known, a final report and accounting is submitted to the court stating all of the events of the probate and providing a full accounting of

what came in, what was paid out, which assets were sold, what's on hand to be distributed and who's entitled to it. Once the probate court approves this report and accounting, distribution to the beneficiaries and/or heirs is made.

## Don't expect a speedy process

Besides the cost factor, the other problem with probate is that it's not a quick process. Probating an estate can take a long period of time (depending on the size of complexity of the estate, six months to one or two years is not uncommon). The average probate takes nine to twelve months. First, it could take four to six weeks from the time of initial filing of the will and petition for probate until approval is given by the court. Then there may be a time period of several months for allowing creditors to file a claim against the estate. Once all the open items are resolved, it takes more time to prepare the final petition and accounting for court, submission, followed by another four to six weeks to get a court hearing on that paperwork. And this is the time frame if there are no problems and it all goes like clockwork. Meanwhile, the executor or administrator has to make sure the estate assets are invested wisely and as permitted by law.

## A Will

The most basic estate planning tool often controls the distribution of assets after death (however, a living trust may actually be the controlling document?). A will should name the beneficiaries and the assets/shares they're to receive, designate the executor and alternate choices for executor, and provide directions for the payment of debts and taxes.

If you have set up a living trust as the main estate planning tool, than a will may just pour over assets into the living trust that didn't make their way into the trust during lifetime. In general, a living trust may result in a quicker distribution of assets and lower attorney and other fees.

## Living Trust

More than just a substitute for a will, a living trust is a way to transfer assets at a death without the involvement of a probate court if all the appropriate assets transfer

and beneficiary designations were made during your lifetime. This can translate into lower costs after a death and more privacy. A living trust can also be useful during your lifetime to avoid or minimize court involvement if incapacity strikes you or your spouse.

## Title/Beneficary designations

Title (ownership) of assets and beneficiary designations should be reviewed to make sure they work with, and not against, the overall estate plan. For example, an estate plan may call for all assets to go to the surviving spouse. If you're in a nursing home and receiving governmental assistance, it may make sense for the healthy spouse to leave assets directly to children rather than to the ill spouse. You should review the possibilities with your attorney.

## Overall planning

You should make sure that the estate plan that was the right fit yesterday is also the right fit today. On all of those matters, it may be worthwhile to consult with an attorney who specializes in elder law.

## The Widow

Women who survive their spouses may face yet another triple whammy. A husband's death means one less Social Security check coming in. And, if retirement plan benefits were coming in from a husband's plan in the form of a one-life annuity (just for his life), that's the end of a monthly check. The economic shock can be tremendous.

The third leg of this whammy-the many women who allow their husbands to handle all the finances are on their own and they are more likely to be unfamiliar with financial matters. At best, this can lead to poor investment choices. At worst, this can lead to the loss of the entire retirement nest egg either through manipulation by unscrupulous individuals or just a lack of understanding as to the risks and costs of certain types of investments.

## Estate Planning

These estate planning are Planning methods, while simple to implement, often fall short when discussing estates over $1 million. At that level, estate owners face a new variety of planning issues.

If you own significant assets, the government may take taxes out of your property when you die-or give your property away.

**What's important is that you take the initiative to act. An effective estate plan will preserve your hard-earned wealth for your family, and ensure that Uncle Sam doesn't become your largest beneficiary.**

# Cash Flow Now

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