Financial Planning: Creating a Strategy That Works for You

Presented By: Phil Parker, CFP®

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CELEBRATING 30 years EST. 1995

Essential Elements of Financial Planning

RISK MANAGEMENT

SHORT TERM PLANNING

LONG TERM PLANNING

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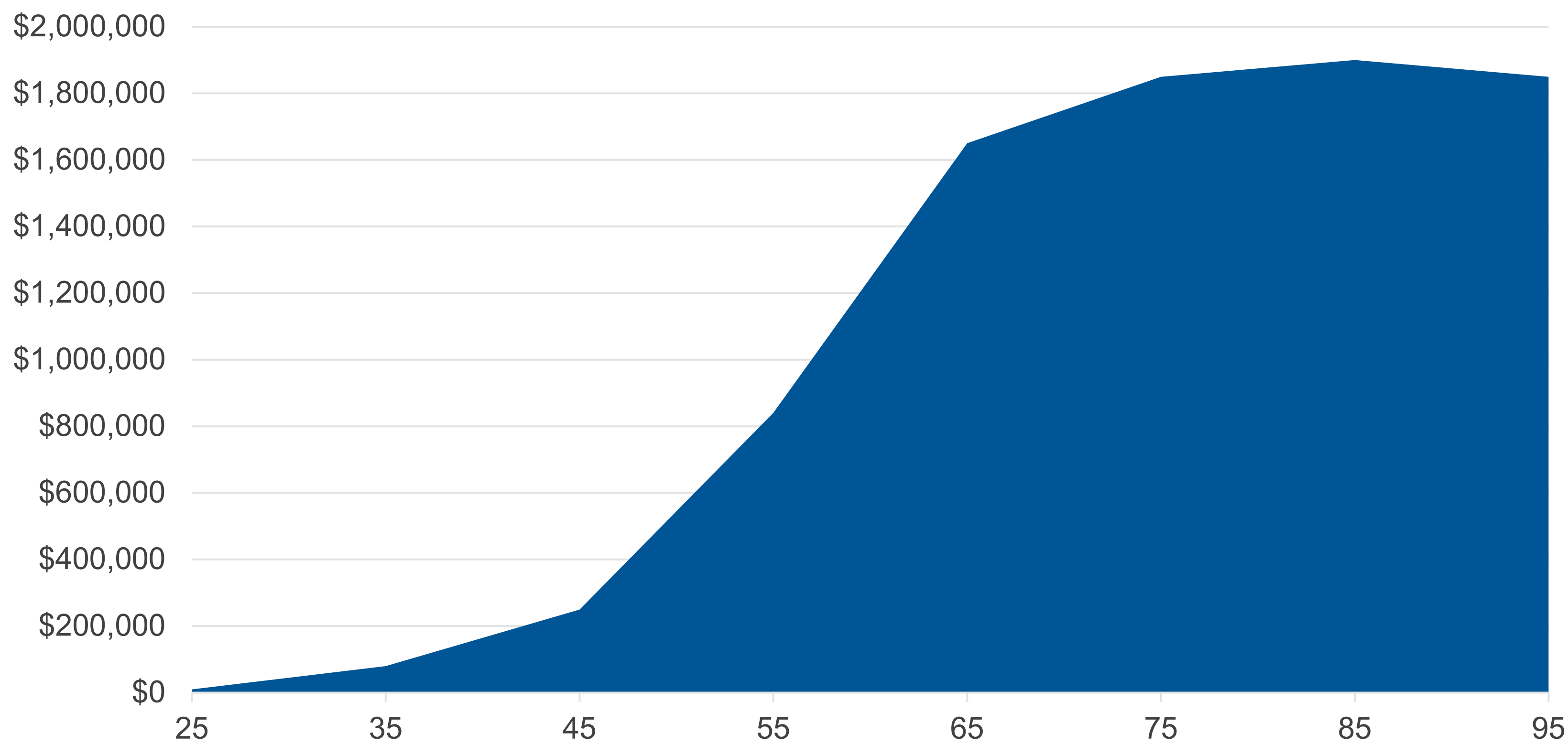
Common Types of Insurance

- Life
- Health
- Disability
- Property
- Liability

Philosophy of Insurance

Goal: become self-insured



*This is a hypothetical illustration

Philosophy of Insurance

Only insure against the **financially catastrophic.**

> "What would happen to my family if ________ happened today?"

Keep premiums as low as possible while maintaining **adequate coverage.**

> "Am I getting the most bang for my buck?"

Keep investment savings and insurance **separate.**

> "Is this more than just life insurance?"

Types of Life Insurance

Term	Permanent			
Term Life	Whole Life	Universal Life	Indexed Universal Life	Variable Universal Life

Term vs Permanent Coverage

Term		
$500,000/Age 43		
	Male	Female
10 Year	$359	$314
15 Year	$441	$373
20 Year	$582	$467
30 Year	$1,021	$764
Annual Rates are based on Preferred, Nonsmoker		

Permanent		
$500,000/Age 43		
	Male	Female
UL Rates	$3,720	$3,101
Annual Rates are based on Preferred, Nonsmoker to Age 100		

*These are hypothetical illustrations

How to Calculate

- Human life value
- Capitalized earnings
- **Needs approach**

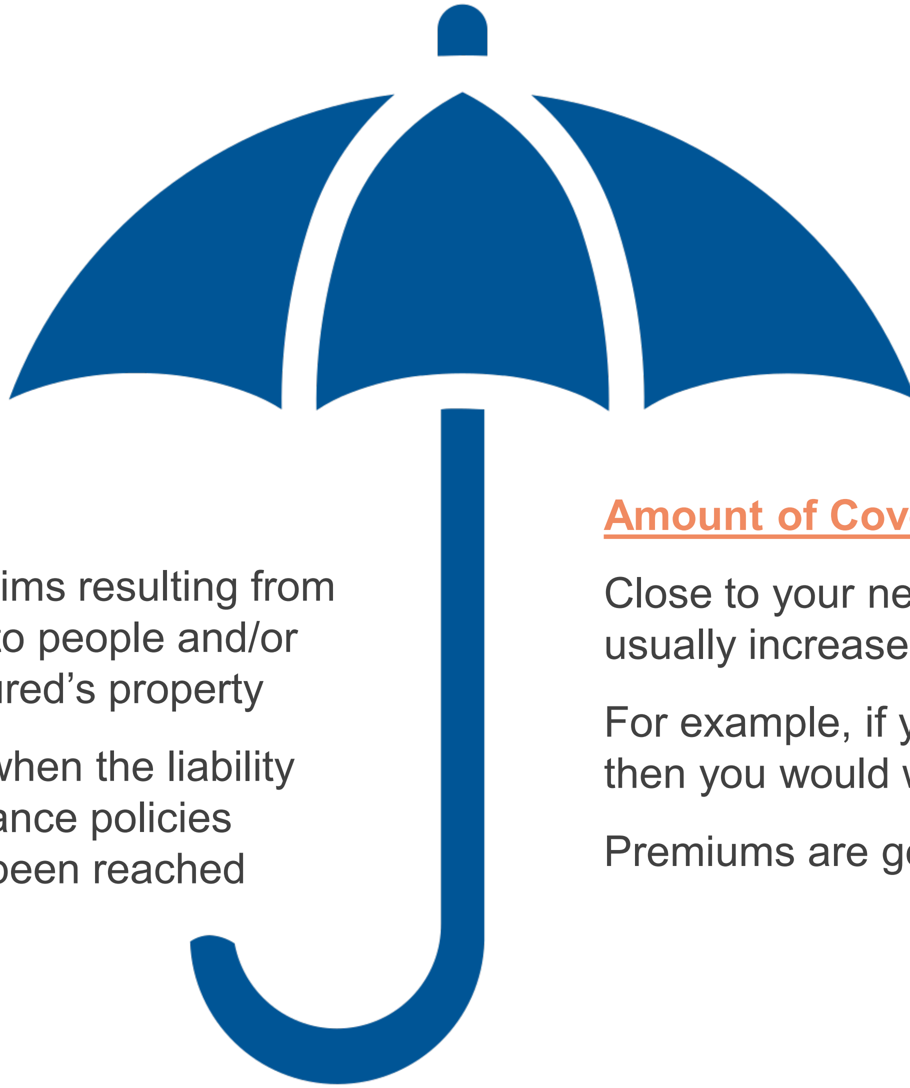
- Readjustment period and dependency period

- Needs approach
  - 12x – 16x of gross pay

$100,000

$1,500,000 x .05 = $75,000

Liability Insurance (aka Umbrella Policy)



Purpose

Protects against claims resulting from injuries or damage to people and/or property on the insured's property

Generally, kicks in when the liability limits of other insurance policies (home, auto) have been reached

Amount of Coverage

Close to your net worth – coverage usually increases in $1M increments

For example, if your net worth is $800k, then you would want a $1M policy

Premiums are generally low

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Liquidity for Emergencies

Have a rainy-day fund; it is going to rain

- **3-6 months** of monthly, non-discretionary expenses
- Do not invest; leave the money in **savings or money-market**
- Acts as a **personal insurance policy**

Home Equity Line of Credit

- An option for an emergency fund
- Not as preferable as cash
  - Taking on debt during an emergency (say, for example, the loss of a job) can lead to further financial distress later.

Debt Management

Is your house too expensive?

- Housing Costs <= **28% of Gross Pay**

Do you have too much debt?

- Preference: no debt except mortgage
- Housing Costs + Other Debt Payments <= **36% of Gross Pay**

!

Too much consumer debt can prevent long-term savings and net-worth building

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Retirement

Control the Controllables

Get Started

Focus on Contribution Rate

Stay the Course

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S&P 500© Index: Positive and Negative Years

Since 1926

Below we look at the S&P 500 Index since 1926 and compare the average annual total returns of the last 97 years. Although stock market returns fluctuate significantly, since 1926, the S&P 500 Index produced positive returns 73% of the time, with an average of 21.3%. In 27% of those years the return was negative, with an average of -13.4%.

1926-2022: 10.1%
97-Year Average Annual Return

71 Positive Years — 21.3% Average Positive Return

Up 0-7%	Up 7-14%	Up 14-21%	Up 21-28%	Up 28% +
2015 1.38%	2016 11.96%	2020 18.40%	2017 21.83%	2021 28.48%
2011 2.11%	2014 13.69%	2012 16.00%	2009 26.46%	2019 31.49%
2007 5.49%	2004 10.88%	2010 15.06%	1999 21.04%	2013 32.39%
2005 4.91%	1993 10.08%	2006 15.79%	1996 23.07%	2003 28.68%
1994 1.31%	1992 7.67%	1988 16.81%	1983 22.51%	1998 28.58%
1987 5.23%	1968 11.06%	1986 18.47%	1982 21.41%	1997 33.36%
1984 6.27%	1965 12.45%	1979 18.44%	1976 23.84%	1995 37.43%
1978 6.56%	1959 11.96%	1972 18.98%	1967 23.98%	1991 30.55%
1970 4.01%	1926 11.62%	1971 14.31%	1963 22.80%	1989 31.49%
1960 0.47%		1964 16.48%	1961 26.89%	1985 32.16%
1956 6.56%		1952 18.37%	1951 24.02%	1980 32.42%
1948 5.50%		1949 18.79%	1943 25.90%	1975 37.20%
1947 5.71%		1944 19.75%		1958 43.36%
		1942 20.34%		1955 31.56%
				1954 52.62%
				1950 31.71%
				1945 36.44%
				1938 31.12%
				1936 33.92%
				1935 47.67%
				1933 53.99%
				1928 43.61%
				1927 37.49%

Down 28% +	Down 21-28%	Down 14-21%	Down 7-14%	Down 0-7%
2008 -37.00%	2002 -22.10%	2022 -18.06%	2001 -11.89%	2018 -4.38%
1937 -35.03%	1974 -26.47%	1973 -14.66%	2000 -9.10%	1990 -3.17%
1931 -43.34%	1930 -24.90%		1977 -7.18%	1981 -4.91%
			1969 -8.50%	1953 -0.99%
			1966 -10.06%	1939 -0.41%
			1962 -8.73%	1934 -1.44%
			1957 -10.78%	
			1946 -8.07%	
			1941 -11.59%	
			1940 -9.78%	
			1932 -8.19%	
			1929 -8.42%	

-13.4% Average Negative Return — 26 Negative Years

Source: Ibbotson Associates and Bloomberg, from 1926-2022. Past performance is no guarantee of future results. For illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stockmarket performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future

Investing- “To The Bottom And Back Again”

Trough Date	Return	Months to Reach Trough	Recovery Date	Months to Recover
Oct-57	-20.7%	3	June-58	8
Jun-62	-27.9%	6	May-63	10
Oct-66	-22.2%	7	Mar-67	5
May-70	-36.1%	17	Aug-71	15
Oct-74	-48.3%	20	Nov-78	49
Mar-78	-19.4%	17	Apr-79	13
Mar-80	-17.1%	1	Jun-80	3
Aug-82	-27.1%	20	Oct-82	2
Dec-87	-33.5%	3	Mar-89	15
Oct-90	-19.9%	3	Jan-91	3
Aug-98	-19.3%	1	Oct-98	2
Oct-02	-49.1%	29	Jan-07	39
Mar-09	-56.8%	16	Jan-12	34
Jul-10	-16.0%	2	Oct-10	3
Oct-11	-19.4%	5	Jan-12	3
Dec-18	-19.8%	3	Mar-19	3
Mar-20	-33.9%	1	Aug-20	5
Oct-22	-25.4%	10	Jan- 24	15
Avg:	**-28.6%**	**10**		**13**

Source: ClearBridge Investments, Standard & Poor’s 500 Index, https://www.yardeni.com/pub/sp500corrbeartables.pdf everhart ADVISORS

Retirement Decision Points

Retirement decision points

Retirees need to make a series of important decisions between ages 55 and 73

- **AGE 55** — **If retired and have a 401(k), may withdraw without 10% penalty**
- **AGE 59½*** — **Can withdraw tax-deferred assets without IRA penalty**
  *Age 50 for Public Safety Workers
- **AGE 62** — **Earliest age to begin Social Security benefits (at reduced amount)**
- **AGE 65** — **Medicare eligibility**
- **AGE 66–67** — **Full Social Security benefit eligibility**
- **AGE 70** — **Maximum Social Security benefit eligibility**
- **AGE 73** — **Must take RMDs (Required Minimum Distribution) from IRAs**

Source: The Retirement Income Reference Book, 2015, LIMRA. (Updated for 2022 numbers)

Social Security – Claiming Early/Late

Age	FRA 66	FRA 67
62	75%	70%
63	80%	76%
64	87%	82%
65	93%	88%
66	**100%**	94%
67	108%	**100%**
68	116%	108%
69	124%	116%
70	132%	124%

College Planning

Education Funding

- Coverdell education savings account
- UTMA/UGMA (Uniform Transfer/ Uniform Gift)
- Trusts
- Traditional taxable accounts
- IRAs
- 529 college savings plans

Why 529 Plans?

Tax advantages

- Account grows tax free
- No taxes on funds withdrawn for qualified higher education expenses.
- State of Ohio tax deduction (residents only)
  - Maximum deduction of $4,000 per beneficiary

Annual gift exclusion amount of $18,000

- $90,000 or $180,000 (married couple) over 5 years

Note: all of the above are subject to limitations and conditions. Please consider these before investing in a 529 plan.

Why 529 Plans?

Control

- Account owner continues to control account assets after the beneficiary reaches legal age.

Flexibility

- Anyone can contribute — parents, grandparents, other family members, friends.
- Account owners can change the beneficiary

Getting Started

Where do you get started?

- https://www.collegeadvantage.com
- Ohio’s tuition plan
- Age-Based investment option

How much should I save?

- $3,000/$6,000/$9,000
- In-state/mid-private/elite private
- Per year, per beneficiary

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One final word…

Prioritize retirement

- You can borrow for education, but you can't borrow for retirement

- Consider parent plus loans, scholarships, employment, community college…

Estate Planning

Estate Planning

Basic Estate Planning Documents

- Will
- Durable Power of Attorney
- Health-Care Proxy
- Revocable and Irrevocable Trusts

Review at the 5 Ds

Estate Planning

- **Beneficiary Designations**
  - Recommended that you review your beneficiary designations periodically.
  - In many cases, beneficiary designations override your last will and testament.
  - General rule of thumb: whoever is listed as beneficiary <u>will</u> receive the money upon your passing.

Additional Resources

Financial Calculators (retirement, college, etc.)

- https://www.bankrate.com

Social Security Administration

- https://www.ssa.gov

Everhart Advisors

- 844-GOT-401K (844-468-4015)
- help@everhartadvisors.com

May 22

10 AM EST

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September 25 Medicare Insights: Understanding Your Options	**October 30** Social Security: Making Informed Decisions	**November 20** Q&A Session: Exploring Your Financial Questions	**December 18** Approaching Retirement: Preparing for the Next Chapter

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