

September 25, 2020

“Our goals can only be reached through a vehicle of a plan in which we must fervently believe, and upon which we must vigorously act. There is no other route to success.”
– Pablo Picasso

2020 has caught many off guard. With instability and uncertainty pervasive in many areas of peoples’ lives, you may be looking for ways to regain control of a rocking boat. Often times in life, inaction can be the easiest course of action. However, this year has thrown us some curve balls, but this may be the nudge that some need to get moving. Putting together a financial plan (or revising one) is one very powerful thing you can do to take positive control in situations like this.

According to Fidelity Investments’ 2019 retirement mindset study, 49% of study participants who have a retirement plan in place stated they feel “in control.” Unfortunately, this same study indicated that only 18% of study participants had a written financial plan in place. In addition, another recent survey found that 77% of Americans are anxious about their financial situation, with retirement being the chief worry, followed by cost of living and debt.¹ It also seems we are all thinking more about preparedness, whether remembering your mask on the way to the grocery store, making difficult decisions for your company, or balancing working from home and online school for the kids. In particular, personal financial preparedness seems to be top of mind; according to the Federal Reserve, personal savings rates are up about 10% from January to 17.8%.² But having an emergency fund or contributing to your company’s 401(k) is only one part of being financially prepared, and a comprehensive approach is key.

For these reasons, and more, now is a great time to consider starting or revisiting your financial plan. Before jumping in though, let’s take some time and look at what financial planning is, what it can encompass, and how you can get started.

FINANCIAL PLANNING IS A PROCESS NOT A PRODUCT

A financial plan is not a document you purchase and put on the shelf; it is an integration of principles and an ongoing process intended to help you answer some of life’s biggest questions around retirement, estate planning, risk management, investments, philanthropy, education, tax planning and other financial matters relevant to you. Financial planning should also help you balance daily financial needs with the journey to reach your long-term goals. Because our financial lives consist of a web of moving parts, understanding the interaction between all of these parts underscores the importance of having a solid financial plan.



Source: Michael Kitces, www.kitces.com

To have a solid plan requires some work and, perhaps most importantly, collaboration between you and your advisor. Beyond that, the typical financial planning process begins with your advisor requesting a variety of information. You will then work with your advisor to determine your individual financial needs and

¹ Capital One and The Decision Lab. January 28, 2020. <https://www.capitalone.com/about/newsroom/mind-over-money-survey/>

² As of July 31, 2020.

identify your goals, and a model of probable outcomes will be created. This often leads to the gathering of additional information for further in-depth reviews, which can include, reviews of estate documents, education plans, asset allocation, taxes, account titling and types, insurance, etc. Following these reviews, a comprehensive plan will generally document recommended or agreed upon courses of action reflecting the stated goals. Finally, the implementation priorities and process should be established to bring the financial plan to life.

An effective financial planning process should produce a financial plan that clearly outlines next steps and recommendations. More often than not, these recommendations arise from a combination of financial analysis and personal preference. In life, a number of your decisions will be based on laws – I must have auto insurance – while others will be based on instinct or research – I should save for retirement. However, with certain decisions, you need to consider your personal point of view rather than just doing the minimum. Auto insurance minimum requirements may not meet your personal risk needs, or just contributing the maximum allowed to a 401(k) may not meet your retirement needs. Having an understanding of how one decision impacts another, where further exploration is necessary and what other options may be available, is the hallmark of financial planning.

A good financial plan should also help ensure that physical documents are compiled, up-to-date, properly stored and shared with those who need access to information. Your plan should be in writing and accessible, along with other important financial documents and key information. Once you have taken the steps to create your financial plan, it is important to remember to revisit the outputs as life changes. A financial plan doesn't just get put together and filed away; it is something that requires periodic review and updating to respond to internal and external changes. Ultimately, any financial plan created should grow and evolve with you throughout the course of your life.

WHAT SHOULD A FINANCIAL PLAN INCLUDE?

Your financial plan should be customized to you and reflect your goals and situation in four broad categories: Investment; Estate; Tax; and Insurance. However, there may be items not reflected in the graphic shown here that need to be addressed as well, such as, charitable giving, business succession planning, executive compensation, and support for extended family. Regardless, the four broad categories above will apply in some way and, thus, deserve a deeper dive.

Investment Planning

Asset allocation, securities and investment vehicles do not exist in a bubble. Your asset allocation and associated risk tolerance is important; however, investment planning also considers: what types of accounts you have, how they are titled, and which assets should belong in what account; and your overall goal for the funds, short-term savings for a large purchase or long term for retirement or legacy. Understanding the importance of titling to coordinate with estate wishes, considering the tax consequences of what types of accounts to save and withdraw from as well as the goals for the assets are all details considered in investment planning.

Estate Planning

An estate plan is a collection of legal documents that provides directions as to how your assets are to be distributed when you pass away, and how you want any health and financial decisions to be made if you



Source: Michael Kitces, www.kitces.com

are unable to do so during your lifetime. Wills and trusts are what come to mind first when thinking about estate planning; however, there are additional documents that are essential as well. Together, these documents will ensure your assets pass according to your wishes, your children have a caregiver, your family's privacy is maintained and, in more complex situations, will protect heirs, provide for future generations and ensure philanthropic goals. Other documents that are an important part of estate planning are financial and health care power of attorneys, a living will, and a personal property memorandum. Having current powers of attorney in place will assist in case of incapacity and allow for decision-making and continuity. Thoughtful estate planning can also help minimize taxes and probate fees, and reduce the complications for your family at your passing.

Insurance Planning

Risk management is a good way to think about insurance planning. Designing and implementing a well thought out risk strategy will provide peace of mind should the unexpected happen to you, a spouse or other loved one, or even a business partner. A good risk strategy will minimize the impact to your wealth and allow you to focus on recovery in the event of a tragedy. A good financial plan will determine potential risks and analyze the options available to mitigate those risks. Various types of insurance are available that provide protection for different events. Life, disability, long term care, auto, homeowners, umbrella, valuable personal property, and business, are all types of insurance available to be used as a part of the financial plan. It is important to realize there is not a one size fits all policy and you may need a variety of policies to ensure that you've sufficiently managed your specific risks. In particular, your insurance needs will vary based on factors, such as your family, your age, and your economic situation. Insurance may also play an important role in your estate plan. Therefore, your financial plan should consider your particular circumstances with an eye to the future when determining the type(s) and amounts of insurance that may be appropriate for you.

Tax Planning

Tax planning is the analysis of a financial situation or plan from a tax perspective that is intended to maximize tax efficiency. Tax efficiency can be understood as utilizing the tax code to ensure you pay your legal requirement and responsible share of taxes without over paying. Tax planning covers things like timing of income, size and timing of purchases, and withdrawal strategies. The selection of investments and types of accounts in consideration of tax filing status and deductions is an essential part of the overall planning process. Many aspects of your financial life are impacted by tax considerations; thus, it is beneficial to consider the tax implications of decisions before you make them. College education and savings, retirement savings, estate planning, and even buying/selling a home are all areas that could benefit from thoughtful tax planning analysis.

Next Steps

Having a comprehensive financial plan in place is like using your GPS for turn-by-turn directions to your ultimate vacation spot. By using available tools and resources to plan the route you are able to get where you are going in the safest and most efficient way, planning can reduce stress, allowing your journey to be an enjoyable part of the vacation. Putting in the effort to have a solid financial plan helps you through your life but also leaves a roadmap for your loved ones to follow should there be an emergency along the way. A nice highlighted map instead of breadcrumbs.

Creating a financial plan seems like a large undertaking, but if it helps you feel in control and reduces your anxiety around money and the future, it is worth the effort. Contact us to begin or revisit your financial planning journey.

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