

## Focus | Banking & Finance

# The foundations of financial planning

We are all experiencing the challenges of today's economy. More than ever, it has become important to understand the basics of financial planning and possible strategies to employ so these challenging times may be turned into opportunities for growth.

If you have not yet begun some type of financial planning program, it is not too late to start. Below are some guidelines to consider when planning, protecting, saving, investing, and managing your future.



**Burk Rosenthal**  
Guest column

### Planning (assessing, setting goals/priorities)

Start by evaluating what it is you want to accomplish in your lifetime. It is most important to start with the big picture and then work backward. Set your life goals personally, professionally and financially. Then, focus on where you want to be and what you want to do in retirement. Set goals for 20 years, 10 years, five years and, finally, the next 12 months. By starting with the big picture first, you will be better able to break it down into smaller pieces. By knowing what it is you want, you can then start to work on "the numbers." Far too often, couples focus on the numbers first without really knowing what it is they're striving for. In other words, you should focus on the "what for" and then you can focus on the "how much." It is far more effective when you actually have meaning behind your financial goals.

### Protecting (insurance, estate planning)

Regarding Property & Casualty, make sure you meet with your property and casualty agent every three to five years for a thorough assessment. Make sure you consider having umbrella liability protection of at least \$1 million.

Make sure you have adequate life insurance, which means if you are employed, married and have minor children, you should

have enough life insurance to be able to replace at least 60 percent to 80 percent of your income until at least the time your kids complete college.

If you've not already done so, get your estate planning documents completed. Make sure you get all of the living documents completed as well, because these could be as crucial as your will. This includes your power of attorney, power of attorney for health care and a living will.

### Saving (tax strategies, debt management)

Make sure you have at least three to six months of income in savings in order to cover emergencies. Given the current economic environment, this could be more important than ever. Right now, bank money market accounts may be an appropriate place for these funds. If you don't have three to six months of income set aside, then consider putting at least 5 percent to 10 percent of your income away on a regular basis until you do.

The three basics to reducing income taxes always boil down to these three things: reduce taxable income, increase tax deductions, and increase tax credits.

If you have less taxable income you will pay less income tax. For example, putting \$10,000 into your 401k will reduce your taxable income by \$10,000 and potentially save about \$2,000 to \$4,000 in income taxes. More deductions equals less taxable income, meaning less income tax. For example, charitable contributions, tax deductible IRA contributions, mortgage interest, etc. Credits are better than deductions. Deductions reduce your income and ultimately your income tax, whereas credits reduce your tax liability dollar for dollar.

Don't use credit cards unless you can pay off the balance each month. If you already have credit card debt on multiple cards, focus on the card with the highest interest rate first – regardless of the balance. Make the biggest payment you can afford on that card each month and then make the minimum payment on the re-

maining cards. Then, just work your way down to the next highest interest rate card until all cards are paid off. Once all of the cards are paid off, keep the card with the best terms and then perform "plastic surgery" on the rest (cut them up). Although, you may never plan to use those cards again, don't actually close the accounts as this will lower your credit score.

### Investing (retirement planning, college, home)

For retirement, think about putting away at least 10 percent of your gross income. Focus on company sponsored retirement plans that allow you to contribute via payroll deduction. Take advantage of pre-tax contributions in order to reduce income taxes now.

For college savings, consider 529 plans. The younger your children, the more you should consider a savings type plan. If your kids are beyond elementary school, you should consider a prepaid plan. If you live in a state with a state income tax, consider a plan in your state in order to obtain tax and other possible benefits.

### Managing (review and change)

Studies show the average person spends more time each year planning their annual vacation than they do reviewing and updating their financial plans. In order to make this more "top of mind" keep a journal and log your time. This will help you stay accountable. Review and update your goals at least once each year, preferably quarterly.

In pursuing all of the above steps, couples should sit down and write out their short and long term goals independently. Then, compare notes and create a "best ideas" summary that incorporates all of your goals and plans. There may need to be some compromising, so you both may need to give and take a little in order to agree in the end. Don't hide purchases or debt from each other. You are essentially "cheating" on your spouse if you do. ■

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