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8 Questions Financial Plans Should Answer

You may have a financial plan, but is it really working for you? The fact is, not all financial plans are created equal. To make sure that your financial plan is going to get you where you want to be financially, make sure that it answers these eight questions.

How much do I have, and how much do I owe?

Before you complete any other financial planning task, you need to take stock of where you currently stand. That means taking a complete inventory of your assets as well as assessing how much you owe. Subtracting the second from the first will tell you your net worth. Your financial plan should make it easy to determine your net worth at a glance.

What do I want to achieve with my money?

We all have personal and financial goals. Perhaps you want to buy a bigger house in a nicer neighborhood. Maybe you want to be able to send your kids to college debt-free. You might be dreaming of owning a second home someday, retiring at 55, or starting your own business. Your financial plan should specifically identify your financial goals and outline steps you need to take to turn those dreams into reality.

Are my investments appropriate for my goals?

You know what your goals are, but is your money invested in a way that will help you get there? Your financial plan should point you toward investments that are appropriate for both your goals and your risk tolerance. That means carefully balancing the risk you need to take to achieve acceptable investment returns with the amount of risk you're comfortable taking based on your personality (some of us are natural risk takers, while some are more risk averse).

Am I protected in case of a disaster or emergency?

One of the main reasons to have a financial plan is to protect yourself and your family in the event that the unexpected happens. Part of being prepared is having an

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Time: Friend or Foe?

Here's when time is your foe: when you have only a couple of years left to work, and you don't have enough accumulated to retire. And here's when time is on your side: you start saving in your twenties, save every month, and keep saving until you retire. That's when you're putting the power of compounding to work for you.

The sooner you start saving, the less you have to put away each month to accumulate the needed funds for retirement. One way that people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. But there are two problems with that strategy. The first is that stocks don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. That's fine when the big returns come in, but in the long run big returns in some years are paid for with big losses in others.

Everyone knows that time is money. It's never too late to increase how much you save, but if you feel like you're not where you should be on the road to retirement, the sooner you start putting more money aside — and investing it wisely — the better. ❍❍❍

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8 Questions

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emergency fund, and your financial plan will tell you how much savings you should have. But that's just the beginning. You'll also want to protect your income with disability insurance and safeguard your assets by having proper insurance.

Am I paying the right amount in taxes?

Thinking about taxes is no fun, but what's a real drag is realizing you've been paying the government more than you needed to. A comprehensive financial plan will include an evaluation of your investment tax situation. If necessary, your advisor will make suggestions for steps you can take to better manage your investment tax burden and keep more of the money you earn.

What's my plan for retirement?

Whether you're a few years or a few decades away from retirement, your financial plan should include a plan for what will happen after you stop working full time. Your financial plan should address how much you need to be saving for retirement and how to invest that money.

What will happen to my money when I die?

Your financial plan and your estate plan go hand in hand. Part of comprehensive financial planning involves checking to make sure the beneficiaries on your retirement accounts and insurance policies match with your overall estate planning goals. A financial planner can also work with your estate planning attorney to make sure your assets aren't lost to unnecessary taxes and address other issues related to how your wealth is distributed after your death.

Who is in charge of helping me achieve my money goals?

Finally, your financial plan should clearly identify who is in charge of helping you achieve your most important money goals. Your financial advisor is a critical partner in your financial life, guiding you to make smart decisions that will put you on the path to achieving your goals.

Please call if you'd like to discuss this in more detail. ❍❍❍

Guarding Your Financial Information

Protecting your financial accounts and information is extremely important. Here are some steps to help you:

Passwords and PINs — Create strong passwords that contain numbers, letters, and symbols, and don't share them or store them on your computer. If you need to write down your passwords and PINs, put them in a secure place. Change your passwords and PINs on a regular basis.

Keep Your Computer Secure — It is best to always use your own computer or device to access your financial accounts. Make sure your computer has up-to-date security software.

Completely Log Out — Always click the log out button to terminate your session. Access to your account may not be terminated by closing your browser or entering a new web address.

Use Secure Wireless Connections — Only use secure wireless connections when accessing your financial accounts. Be cautious of using hotspots in public areas, because they often reduce their security settings.

Protect Your Apps — If you access your financial accounts through an app on your mobile device, make sure you use the highest security setting that is available and that your device is password protected.

Check for Secure Websites — Most financial institution sites are very secure, but when shopping online with your credit card, make sure you are using a secure site. The address of a secure website connection starts with https instead of just http and has a key or closed padlock in the status bar.

Never Respond to Emails Requesting Personal Information — If you receive emails that request personal information, such as your Social Security number, passwords, or PINs, do not respond to them. A legitimate company or financial institution would not ask you to provide or verify sensitive information through email.

Review Your Statements — Make sure to review all of your monthly financial account statements to ensure that all transactions are accurate.

Secure Your Documents — Find a safe location to maintain your financial documents. When disposing of any financial information, make sure that you shred the documents before throwing them away.

Protect Your Social Security Number — You should keep your Social Security card in a secure place and not carry it with you. You should also never use your Social Security number as a username or password.

Check Your Credit Reports — By reviewing your credit report on a regular basis, you may be able to identify inaccuracies or unauthorized activity. You can obtain a free credit report every 12 months from the three different credit bureaus. ❍❍❍

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Sufficient Funds to Last Your Entire Retirement

Depending on your age and circumstances, retirement can feel far away and mysterious or achingly close and excitement (or panic) inducing. When you're young, the idea of retirement is shrouded in the mists of future wealth and idle thoughts of what you'll do when you don't have to work anymore. But while those fast approaching retirement may have a clearer view of what is to come, in some ways, they are just as unaware of what is really in store for them over the next few decades. Most of us don't know how long we're going to live, so making sure we have sufficient funds for our entire retirement is incredibly important.

How Much to Save?

While it's thought you could only need as low as 70% of your current income per year in retirement, it is wise to assume that you will need closer to 100%. Think of all the things you enjoy doing now: traveling, hobbies, attending cultural events and sports games. All of these could be a vital part of an active and interesting retirement, but they also cost money. Make sure you have saved enough to be active and that your withdrawal rate is not so high that your resources could deplete early. While it's always customizable, a good starting point is to withdraw no more than 4% in the first year of your retirement, and continue to adjust for inflation down the road.

Cutting down on living expenses now will free yourself up for more contributions to your retirement and will give you an idea of how little you can live comfortably on. This will give you a better idea of how much you will really need in retirement. The most important expense to get rid of is payments on any debt before you enter retirement. Your cost of living will be significantly reduced if you have paid off your mortgage and any outstanding consumer debt.

When forming a plan or determining if you are ready to retire now, err on the side of longevity when it comes to your lifespan. Add a few years to what is generally expected — plan on living until at most 85 or 90. It is a far better situation to have saved more than necessary than to run out of funds so late in life. In the vein of further caution, it is a good idea to have an emergency fund outside of your retirement plan. A general rule is to have at least six months of living expenses tucked away just in case.

What about Housing?

In general, housing should take up about 25% of your gross pay or 35% of your take-home pay. If you own your own home and have paid off your mortgage, this shouldn't be a difficult guideline — but remember that with a house comes additional, and often expensive, repair and maintenance costs. If you plan on staying in your home throughout your retirement, make sure that the big stuff is in good working order or replaced while you are still drawing income. This includes the roof, the foundation, siding, HVAC, sewer lines, and septic system, as well as an emergency fund in case of fire or water damage.

Your house will also need to be adapted for your needs as you age. You may need to consider selling a home that requires a lot of upkeep and downsizing to something more manageable. No one wants to face the reality of physical deterioration, but most people face mobility issues as they age and a one-story home is safer and easier to navigate.

Continuing Income Options

It may be tempting, but resist the urge to take early retirement. It is difficult enough to save enough money to live on in retirement if you are only retired for 20 to 25 years. Imagine if you retire at 55 years old and live for another 35 years. You will need enough funds to support yourself in retirement for longer than you were in the workforce. Every extra year you work is a year you don't have to support yourself using your retirement savings.

Once you've retired, it can be helpful for your savings and your wellbeing to work a casual, light job. Many retirees find themselves missing the comradery of the workplace and the continued income will allow for more spending money, vacations, and greater security in your savings. You could put your experience to work for you as a part-time consultant in your former field, or put in a few hours a week at the town museum.

Finally, you might consider longevity insurance. This is a type of deferred annuity that will continue to provide income well into your twilight years. People usually purchase it at around 65 years old, and the payout begins at 80 years.

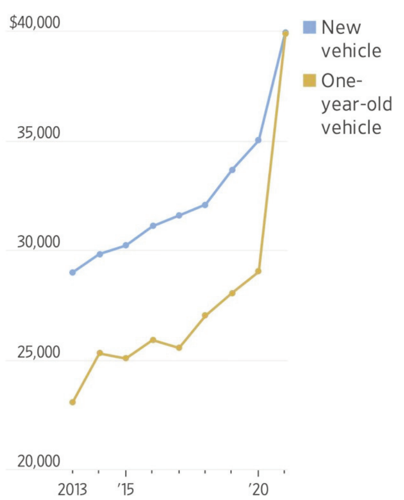
Please call if you'd like to discuss this in more detail. ❍❍❍

Before You Turn in Your Leased Car—Look, There Might be Money in That Car

Over the years of serving clients, we have heard funny stories on how people hide money in different places around their home in preparation for real disasters. Sometimes grandchildren will open the freezer of their grandparents and see dollar bills rolled up in a soft drink can. Others have found a few special coins under the couch cushions. Money has been found in the curtains, under the ironing board cover and even inside of pill bottles. Maybe you have money hidden that you don't know about—in your car lease.

Used car prices have soared recently, mostly because of the supply chain issues like the shortage of semi-conductors for new cars. This has driven up the price of new cars. We are seeing a drastic shift in the auto industry due to the effects of COVID-19 and supply chain management. Today, the average price of a new vehicle is around $40,000 depending on the brand and model. Research done by J.D Power reported the average price for a new vehicle was less than $30,000 in 2013. That's a big increase and that's if you can get a new car. This increase in new car prices, and the problems of getting a new car, have also increased used car prices. See the figure below.

Average price paid for new vehicles compared with one-year-old used vehicles



Note: For June of each year
Source: J.D. Power

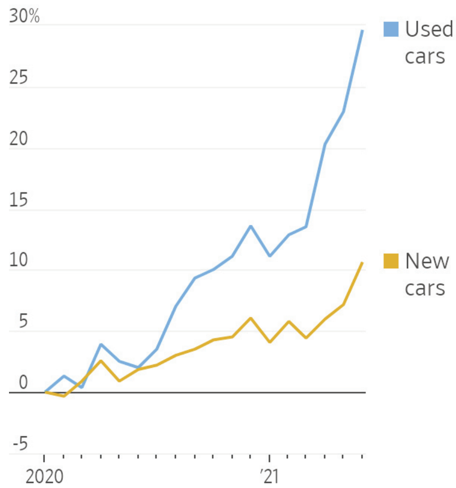
Over the last 10 years, leasing vehicles has become very popular. A lease contract allows the borrower to put down less money up front, drive a certain number of miles every year, turn in the vehicle at the end of the lease, or buy the vehicle. This tends to resemble the concept of "renting." The monthly payment for a lease is less than the monthly payment to finance the same vehicle. The lessee finances the estimated use of the value of the vehicle.

In today's market, the vehicle may be worth more at the end of the lease than the buy-out price. In the past, no equity would be expected when seeking to sell a financed car or turning in a vehicle at the end of the lease.

Historically, it has been cheaper to buy a used vehicle over a new one. But for some used models—mostly those with low mileage and bought in the past year or two—the differential is closing quickly. Research from J.D. Power showed the average price paid by a customer in June 2021 for a one-year-old vehicle was only about $80 less than the selling price of a brand new vehicle. That gap has been typically closer to $5,000 or more.

This is where you might find significant money in your car: if the buy-out price to purchase your car at the end of a lease is less than the car's current value, you have the opportunity to buy the car and sell it. Therefore, we find it to be an important time to know how much your vehicle is worth. Edmunds.com, a car shopping website, found that the average selling price for a used car with between 100,000 and 110,000 miles was $16,489 in June 2021, the highest ever recorded and up 30 percent from a year ago. These older models seem to be on the rise. Most auto analysts believe we have a long way to go before prices come down.

Change in average price paid since January 2020



Source: Edmunds.com

One industry insider Greg Webb, who has worked in the auto industry as a sales consultant for over 29 years, feels this is a unique season because production of new cars is getting cut back by 40 percent due to the shortages of global computer chips. Now is the time to appraise your vehicle.

How do you find value of your leased car? There are various online services, like Kelly Blue Book, TrueCar and Carvana, that will supply a trade-in estimate based on your location, the vehicle's age, mileage and general condition. We encourage using one of these online services to value your current vehicle prior to asking for an appraisal at a local dealership.

Whether you have financed or leased your vehicle, you may have more equity than you think.

Sincerely,

Melissa Montalvo, CFP®
Financial Advisor

Any opinions are those of Melissa Montalvo and not necessarily those of Raymond James.