


# **Financial Planning Seminar: Investments and Estate Planning**





# Disclaimer



**The information presented herein must also be supported by your own research and/or advisement from a professional before making any financial decisions.**





# Why Are We Here?

- Review some Financial Planning Basics

## **Investments**

- Define what an investment is
- Discuss which investments may be best for various objectives

## **Estate Planning**

- Discuss why an estate plan is necessary
- Discuss various components of an estate plan



# Financial Planning Review

**Though there is some debate regarding the order in which these should be done, it is universally accepted that we must:**

- **Give Tithes (10% of your increase) and Offerings (of your ability)**
- **Save**
- **Pay Bills**
- **Invest**




# Why Give Tithes and Offerings?



**Malachi 3:8,10 - Will a man rob God? Yet ye have robbed me. But ye say, Wherein have we robbed thee? In tithes and offerings.**

**Bring ye all the tithes into the storehouse, that there may be meat in mine house, and prove me now herewith, saith the LORD of hosts, if I will not open you the windows of heaven, and pour you out a blessing, that [there shall] not [be room] enough [to receive it].**



- It is the Christian's spiritual duty to take dominion over money. If we don't, we surrender God's resources to the enemy. – Dave Ramsey (also see Proverbs 21:20)

# Why Do I Need an Emergency Fund?

- Savings in general, but especially for emergencies must be a priority.
- The fact of the matter is that unexpected events do occur – IT'S GOING TO RAIN!
- Eventually, we want to work up to 3-6 months of expenses in savings, but start with at least \$1,000.
- This money should be kept in a money market fund and NOT used for purchases.
- The emergency fund is not an INVESTMENT, it is INSURANCE.





# Managing Purchases/Paying Bills

- Contentment is a matter of our spiritual walk. Happiness is being satisfied with what we already have. 1 Tim. 6:6 admonishes us that “godliness with contentment is great gain.”
- One sign of maturity is delaying gratification, as children find it difficult to discipline themselves from wanting everything now.
- **FORGET THE JONES!** We must stop comparing ourselves. If you live like no one else, later you can live like no one else.
- When we don't use cash, purchases almost always cost us more than we can save/invest. Average savings rates are less than 1%, while borrowing rates are 15-24%.



## Managing Purchases/Paying Bills (cont'd)

### Impulse Buying

- **Advertisers appeals to 4 desires:**

- The need to be like others – conformity
- The need to be better than others – Superiority
- The need to be attractive to the others
- The need to have what others have - covetousness

- **Strategies:**

- Do I **NEED** it?
- Will I still want this next year?
- Why do I want this?
- Self-denial brings financial discipline





# What is an Investment, How Do We Get Started?

- **Investment** - Process of exchanging income for an asset that is expected to produce earnings at a later time. An investor refrains from consumption in the present in hopes of a greater return in the future.
- Sound investments include things that usually appreciate over time, unlike things we consume that depreciate.
  - What about Clothes, Timeshares, Cars, Education, etc.



# Parking Funds

- Checking accounts bear little to no return, but allow the most flexible access to funds
- Savings accounts usually pay .5 – 1% ([www.bankaholic.com/money-market](http://www.bankaholic.com/money-market))
- These can be used for keeping emergency funds as well

# Low Return Investments

- Money market accounts involve banknotes and assets that can be turned into cash at short notice, such as short-term government securities and bills of exchange.
- Bank CDs and Treasury Bills/Bonds
  - Bank CDs offer .5 – 2% depending on the term of the promissory note (typically 1-3 years)
  - The 10 year Treasury Bond showed a 5% average yield from 1992-2006. Treasury Bills currently offer .15% - 2 % depending on the term of the promissory note (typically 1-10 years).
  - The bond market typically has an inverse relationship to the stock market, meaning that as stock prices increase, bond prices typically decrease and vice versa.
  - The benefit with these investments is that they are relatively safe from any loss of principle investment. You should expect to hold the investment for its full term.





# Stocks and ETFs

- **Stocks**

- Companies sell shares of their institutions in exchange for raising more capital. Not all companies are publicly owned.
- Most stocks are traded on the NYSE or an electronic trading marketplace.
- Trading stocks require time, financial acumen and diligent attention. It should also be noted that the principal investment could possibly be lost. The safer way to participate in the stock market is passively through a mutual fund, where a small maintenance fee is charged to have this done professionally.

- **ETFs – Exchange Traded Funds**

- Most ETFs track an index (stock or bond) and trade just like a stock
- The benefit is that they are less vulnerable to company-specific occurrences and allow you to own a sector or group of the market. For instance, bank stocks trade as the BKK. The most popular ETFs mirror the S&P 500 (SPY), the Nasdaq (QQQ) and the Dow Jones Industrial Average (DIA).

# Housing: Owning vs. Renting

- Make no mistake about it, everyone pays a mortgage. Some people pay their own, others pay someone else's.
- In most cases (2007-2012 being a recent exception), homes typically appreciate over time. Many parts of the country have seen home prices rebound 5.5% on average over the past year. When they do and a principle residence is sold, the IRS allows the homeowner to keep up to \$250,000 per individual and \$500,000 per married couple free of taxes. Conversely, the homeowner is responsible for any depreciation that may occur.
- Owning a home has the reward of the IRS allowing the homeowner to deduct the mortgage interest, which in most cases gives back approximately 20% of the total mortgage amount paid during the first 7 years of home ownership. Some homeowners adjust their tax withholdings to take advantage of this benefit during the year, rather than at tax filing time.
- The challenge to home ownership is that it requires the owner to be responsible for the maintenance of the home vs. most rentals require the landlord to cover intermediate and major home repair items.





# Save Now for the Future

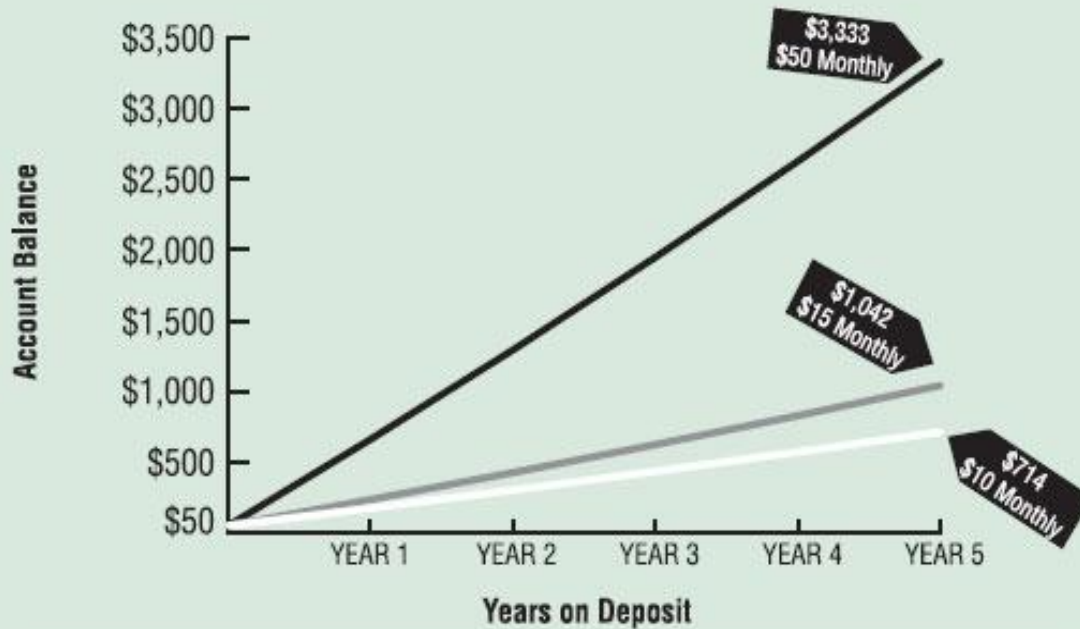


- **Small savings will grow over time**
  - Consistent savings
    - Same amount saved from each allowance or paycheck
    - Pay God first, then yourself
  - Time value of money or compounding interest
- **Key is to save, not use as a spending account**



# Compounded Interest

**Saving As Much As You Can on a Regular Basis Can Really Add Up**



**3.5 Percent Interest Rate Compounded Monthly for Five Years, Initial Deposit \$50**



# Retirement: Today vs. Tomorrow

Source	Today	Tomorrow
<b>Pension/401k</b>	<b>A staple of most people's retirement plan.</b>	<b>401k plans where available, otherwise IRAs, Mutual Funds and other Investments</b>
<b>Social Security</b>	<b>Available</b>	<b>Uncertain</b>
<b>Medicare</b>	<b>Available</b>	<b>Available in a modified and limited version, while medical costs are on the rise</b>
<b>Housing</b>	<b>Prices and Interest Rates are Low</b>	<b>Prices and Interest Rates will Rise</b>





# Estate Planning: Planning Today for Your Family's Tomorrow



- “It’s never too early to prepare essential estate planning documents, but it can be too late.” – AARP.org
- A good [man] leaveth an inheritance to his children's children: and the wealth of the sinner [is] laid up for the just. -Prov. 13:22 KJV





# Cornerstones of Your Family Plan

- Life Insurance
- Estate Planning
  - Wills
  - Advanced directive
  - Power of attorney
  - Trusts
  - Revocable trusts
- Sources of Estate Planning Documents



# Life Insurance

- Purchasing Basics
  - Term versus whole life
  - Age triggers
- Purpose of Life Insurance
  - Funeral costs
  - Replacement income
  - Paying off debts


# Estate Planning Overview

- Purpose – ensure that his money and property are distributed according to his wishes. Without a valid will, the state will divvy up his assets in accordance with local laws.
- Executor - a personal representative who will carry out his wishes after his death. This person will pay taxes, pay money due to creditors and distribute the assets. If your loved one doesn't appoint an executor, the state will.
- Probate - the legal process that determines the validity of the will and oversees distribution of assets, even if there is no will. The probate process differs by state.





# Estate Planning Overview (cont.)

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- Regardless of whether your loved one has a will or a trust, any property that's jointly owned with someone else will go to the joint owner upon your loved one's death. Any asset with a designated beneficiary, such as an individual retirement account, will go to that beneficiary.



# Wills

- A will is a legal document that tells who will manage your estate, who will get your belongings, and, if applicable, who will become guardian of your minor children or other disabled family members after you die. Die without a will and the state makes these decisions.



# Trust

- A trust transfers ownership of selected property to the trust. He also names a trustee to manage the trust for a beneficiary's (or multiple beneficiaries') benefit. The grantor can appoint himself as the initial trustee. A living trust takes effect during the grantor's lifetime.



# Trust (cont.)


- It eliminates the need for your estate to pass through probate court before it can be passed on to your heirs. Properly worded, a trust can also be used as a substitute for powers of attorney.
- Your trust can be written in a way that will pass your assets on to your beneficiaries immediately upon your death or portioned out over time and in amounts that you specify. Your attorney can help by including tax savings clauses that may help to reduce state and federal estate taxes.








# Advanced Directive

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- An advanced directive is a catch-all term that refers to health care directives, living wills, health care (medical) powers of attorney, and other personalized directives. All of these documents allow you express legally your preference for continued health care should you become terminally ill.





# Power of Attorney

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- A power of attorney delegates the power to legally handle your financial affairs should you become disabled or incapacitated. Without this, no one may be able to access your bank account, securities, or any other property in your name without lengthy legal proceedings.



# Discussion Scenarios



**analyze (v.)**  
to think about something carefully in order to understand all of its parts.



# Can I Afford It?

- \$40,000 sports car



- Age 45
- \$5,400/mo. net pay
- \$4,500 of expenses
- \$8,000 savings
- \$65,000 retirement

Lease pmt \$450/mo.

Based on the Suze Orman segment  
"Can I Afford It?"

# Can I Afford It?

- Graduation cruise



- Age 22
- \$3,250/mo. net pay
- \$2,600 of expenses, incl. \$40,000 student loan at 8%
- \$6,500 savings
- \$0 retirement

\$3,000

Based on the Suze Orman segment  
"Can I Afford It?"

# Can I Afford It?

- Anniversary ring



\$5,000

- Age 60
- \$4,000/mo. pension/retirement
- \$3,000 of expenses
- Owns home; \$25,000 equity
- \$20,000 savings
- \$950,000 retirement

Based on the Suze Orman segment  
"Can I Afford It?"