5 Steps to Building Your Financial Plan

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Below we outline **5 straightforward steps** that you can implement today to start your financial plan.

Step 1 Cash Flow Planning

The very first step we recommend is getting your cash flow planned out. This is more than just making a budget. Here are some tips:

- Track your income to determine fixed costs (expenses that are the same each month like rent or a mortgage, student loan payments, or childcare) and variable costs (expenses that are harder to plan for such as car and home repairs, or unexpected medical bills).
- Use range-based goals to keep you on track. Setting a single number goal will set yourself up for failure. Instead of saying, "I can only spend $500 on groceries for my family of four each month," give yourself a range of $400-$600.
- Understand it takes time to get things right. You'll need at least six months of data (including tracking and tweaking) until you get your plan right.

Step 2 Risk Management and Insurance

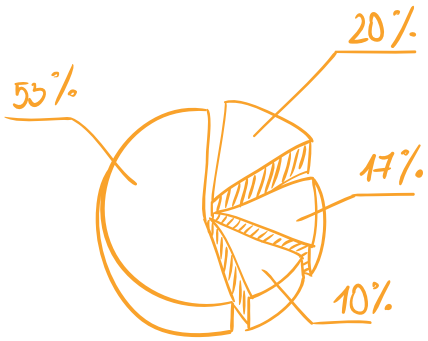
The next area to assess is your insurance and risk management. In simplest terms, how you are trading money for risk? Specifically, we are talking about life insurance. Here are a few things to consider:

- Understand what life insurance is for. Generally speaking, insurance is to protect your loved ones if you are no longer around to earn money.
- Ask yourself if you need it or not. Do you have children, or do you have people who rely on you for their livelihood?
- Determine if you're under or over insured. Do you need insurance for everything? Absolutely not. But if you're a pianist and making a living playing the piano, maybe it's time to think about getting your hands insured.

Step 3 Retirement Planning

Most people usually have a number in their head relating to the amount of money they need for retirement. But what you really should be focusing on are the details. Cover these three areas when thinking through how much you need to save for retirement:

- **Needs.** Your needs are the basics, like shelter, food and healthcare. You want to be 100% certain you will have enough money for these things.
- **Goals.** Your goals are all about what you want when you "retire", whatever that looks like for you. For some it could mean money to travel the world, or money to pay for a golf club membership. These would also be considered "non-essentials".
- **Priorities.** The most important thing to do after identifying your goals is to prioritize. What are the most important things to you? Without prioritization of your goals you may not end up where you are trying to go.



Step 4 Tax Planning

Instead of just thinking about taxes once per year, we recommend considering them year-round – a little planning can go a long way. There are tons of changes each year to the tax laws on federal and state levels, so of course you should work with a CPA for additional advice surrounding federal and local tax laws. The main aspects to consider when deciding how to use taxes to benefit your overall financial plan include:

- Know the difference between deductions (which reduce the amount of income you use to calculate your taxes due) and credits (a credit against the amount of taxes due), and which ones can help you.
- Only pay what you must in taxes. Not a penny more.
- Understand itemized and standardized deductions. Talk to a tax professional to figure out which filing method will help you keep more of your money.
- Long-term tax planning with things like a Roth IRA give you some control over how much taxable income you'll realize when you retire.
- Understand how a Health Savings Account (HSA) can benefit you and find out if it makes sense for your personal situation.

Step 5

Investment Planning

The final step in creating your financial plan is investment planning. There's a reason why it's last. Until you've figured out your cash flow plan, your insurance and retirement situations, and planned how you will handle your taxes, investment planning cannot effectively happen. Now, everything doesn't have to be working in concert, but addressing the first four steps will help immensely.

- Make sure you know what options are open to you – Google it. Generally speaking, anywhere you invest you should have the options of stocks, bonds, mutual funds and exchange-traded funds (ETFs).
- Make sure you're comfortable with the volatility – this is tricky. You can't really know for sure how you handle volatility until you have money invested and you see a huge draw down. It's easy to say you can handle it when it hasn't happened.
- Make sure you know the tax impact of your decisions. How the investments you're considering will impact your tax returns. Understand how your capital gains and losses will affect your return. And if you think you need a CPA, then you probably do. TurboTax is great for just starting out, but it's not right for everyone forever.

Tackling these five steps will not be a simple task but it will pay off in the long run – and getting started is absolutely free. In the end, all of this will help you get control of your money and not let money control you. If you have questions or would like to set up an appointment to get a second opinion of your financial plan, contact us either by phone or email.