

focus  n<sup>®</sup>

Financial Management  
Six Steps to Financial Success

PREVIEW



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# Introduction

## Making the Most of Your Money

Sound financial management is a process that begins with your first paycheck and continues through each stage of life. Every financial decision you make about money today will form the foundation for your financial future, as well as help you handle financial challenges that may come your way.

You may be working hard in order to build wealth, but is your money working as hard for you? Putting your money to work through careful planning creates additional opportunities for success and gives you greater control of your financial future.

Developing a comprehensive, long-term strategy typically requires the coordination of all your personal finances. To succeed, you need to set goals and make sure that all the various financial components of your life work together. This requires covering all the bases — from insurance protection to reduce the risks of everyday life, to managing your tax burden and freeing up money to invest, to building a portfolio that will fund a comfortable retirement and help you achieve other goals (such as a college education for your kids), to preserving wealth so you can leave a lasting legacy for your loved ones.

“An investment in knowledge pays the best interest.”

— Benjamin Franklin

Source:  
Brainyquote.com

## Six Steps to Financial Success

This six-step plan is designed to help you pursue financial success — to take you from where you are now to where you want to be.

- 1 Protect What You Have**
- 2 Take Control of Your Cash Flow**
- 3 Invest Wisely**
- 4 Manage Your Taxes**
- 5 Save for Retirement**
- 6 Leave a Legacy**



# Protect What You Have

## Consider an HSA

A tax-advantaged health savings account (HSA) may help you save money for current and future medical expenses. Interest and earnings accumulate tax deferred, and withdrawals are tax-free if spent on qualified health-care expenses.

In order to establish and contribute to an HSA, you must be enrolled in a qualified high-deductible health plan and not be enrolled in Medicare.

## Key Areas of Insurance Coverage

Many individuals attempt to achieve financial success without protecting what they already have. That can be a mistake.

A well-designed risk management program may help protect you in the event of a disaster without burdening you with payments for protection you don't really need. In order to be adequately insured, you need to consider six areas of insurance coverage:

- Medical
- Long-term care
- Disability income
- Liability
- Property and casualty
- Life



## Health Insurance Marketplace

If you don't have health coverage through an employer and are not eligible for a government plan such as Medicare, you can check out different plans on the Health Insurance Marketplace. At [HealthCare.gov](https://www.healthcare.gov), you can find answers to questions about different plans and eligibility, and compare plans based on coverage options, deductibles, and cost.

## Three Critical Life Insurance Questions

**How much life insurance do I need?** Some experts recommend at least two to five years of salary; others recommend as much as 10 years.

**What type of policy will meet my family's needs?** Would I be best served by term insurance, or should I buy a permanent life insurance policy?

**Who will get the money upon my death?** Should the benefit pass directly to my heirs, or do I want it to accomplish other goals? Is it important to keep the benefit outside of my taxable estate?

A financial professional can help you address these concerns.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

# Protect What You Have

## Life Insurance Worksheet

How much life insurance would your family need to maintain its comfortable lifestyle over the long term?

	Example	You
1. Calculate your dependents' total annual living costs. (Include all mortgage and loan payments)	\$ <b>70,000</b>	\$ _____
2. How much annual income would be available to them?		
A. Spouse's income	\$ _____	
B. Investment income	\$ _____	
C. Social Security	\$ _____	
D. Pension	\$ _____	
E. Other income	\$ _____	
F. Total income available	\$ <b>42,000</b>	\$ _____
3. How much more income would your family need?*		
(Subtract the total on line 2F from line 1)	\$ <b>28,000</b>	\$ _____
4. What return could they expect on investments?	<b>7</b> %	_____ %
5. Resulting life insurance benefit		
(Divide total on line 3 by the rate of return on line 4)	\$ <b>400,000</b>	\$ _____

\*To estimate how much capital it would take to provide \$28,000 in annual income for an indefinite number of years, you would estimate the return that might be expected on a hypothetical investment portfolio (7% in this example). To calculate the amount of principal, or life insurance benefit, that would be needed to invest at 7% to generate an annual income of \$28,000, you would divide \$28,000 (line 3) by .07 (line 4), which results in \$400,000 of life insurance coverage.

If you need more money for a child's college education or other needs, you might want additional insurance coverage.

This hypothetical example is used for illustrative purposes only. The investment return does not represent the performance of any specific investment.



## Origins of Insurance

Many modern insurance practices began with the wealthy ship captains, merchants, and ship owners who frequented Edward Lloyd's coffee house in London in the late 1600s.

This group eventually went on to become Lloyd's of London.

Source:  
Lloyd's of London

## Group Coverage May Not Be Sufficient

Keep in mind that group insurance through your employer — whether for medical, life, or disability income insurance — may not be sufficient for your family's long-term needs. And if you should lose your job, you would also lose this coverage. Although you might be able to extend health-care coverage under your former employer's plan through COBRA for up to 18 months after separation from service, you would be responsible for the full premium.

That's why you may want to consider purchasing individual policies to enhance or supplement your group insurance coverage.