

# WEALTH CARE KIT<sup>SM</sup>



A consumer's guide to establishing and maintaining a financial wellness plan.

SmartAboutMoney.org

A website built by the National Endowment for Financial Education dedicated to your financial well-being.

# THE WEALTH CARE KIT an INTRODUCTION

You plan your *health*.

You know it's wise to get enough exercise, eat the right foods, and monitor your cholesterol. You visit your doctor each year to be sure your body stays as fit as possible.

But when was the last time you planned for your wealth? Have you monitored the condition of your investments, taken a preventive approach to taxes, and flexed your retirement planning muscles? And when did you last visit a financial planner to get a professional assessment of your financial well-being? This may be a situation you don't like to deal with, but it's safe to say that Uncle Sam isn't likely to step in to help you anytime soon.

*It's time for a wealth-care check-up.*

Many of us spend time thinking about money—mostly about how to pay the bills. But too few Americans focus on what they want to achieve in life and how to fund their longer-term goals and objectives.

You don't need to be wealthy to develop a good financial plan—but you may improve your situation if you stick to one. At least you'll be able to protect your retirement nest egg, keep the IRS from taking too big a tax bite, and have enough money to finance your children's college education.

Wealth care, or effective financial planning, is a disciplined behavior, much like health maintenance. It isn't difficult. Much of it is common sense—like knowing the difference between your needs and your wants.

Most people have never taken the time to identify their objectives and plan the steps necessary to attain their goals in a timely and strategic way. Once these actions become habits, you'll be surprised by how easy financial planning is and how rewarding it can be. The reason NEFE developed this "Wealth Care Kit" is to demystify the financial planning process and to assist all Americans in managing their money to enrich their financial well-being and the quality of their lives.

Within this kit, you'll find overviews of five specific financial planning areas: insurance, investments, income tax planning, retirement planning, and estate planning.

**“**  
**YOU'LL BE SURPRISED**  
**BY HOW EASY**  
**FINANCIAL PLANNING**  
**IS AND HOW**  
**REWARDING**  
**IT CAN BE.**  
**”**

Each section includes a checklist or worksheet to assist you in taking control of your finances. You can use this material to organize your financial information for your personal reference or for professional use by a Certified

Financial Planner™ (CFP®), licensee or another financial planning professional.

Before moving to a specific financial planning area, take your financial pulse.

## SETTING GOALS

First, determine your goals. Goals and objectives provide focus, purpose, vision, and direction for the financial planning process. They must be clear, precise, consistent, and measurable. You first need to decide on a time frame to determine whether your goals are short, intermediate, or long term. You want to set a time frame for two reasons: to establish the length of the commitment by making the goal measurable, and to enable you to calculate the amount of savings required. How long until you can pay off your credit card balances? How many years before your child begins college? How many more years will you work before retiring, and what is your probable life span? Then set a dollar amount—the money you'll need to pay off the credit card balance, finance school, and fund your retirement.

## DETERMINING YOUR NET WORTH AND CASH FLOW

After identifying your needs, time frame, and potential costs, begin the planning process by determining your net worth and cash flow.

To calculate your net worth, add your assets, total your liabilities, and subtract your liabilities from your assets. What remains is your net worth. (See the worksheet on page 4.) Your net worth drives the financial planning process. For example, one of your goals may be to increase the asset side of the balance sheet while reducing your liabilities.

If you have positive net worth (where your assets exceed your liabilities), your money is working for you. But there may be more you can do with it, such as putting more of it into investments or setting aside extra funds for retirement. If your net worth is small, or even in the red, it's time to tackle debt and build your cash reserve and investments.

To determine your cash flow, make a list of all income sources and expenses for a typical month. Total your income and expenses and then subtract the total expenses from the total income. If there is a positive balance, you have a net positive cash flow (also called discretionary income) that can be used, along with funds already accumulated, to accomplish your goals. If the balance is negative, you will need to work at reducing your expenses and/or increasing your income to achieve a net positive cash flow. Otherwise, it will be very difficult, if not impossible, to accomplish your goals.

## ESTABLISH AN EMERGENCY FUND

You also will want to make sure that your assets are easily accessible. Financial planners generally recommend having the equivalent in cash of three to six months' worth of fixed and variable expenses in case of emergency. To calculate this amount, take your total net income for three to six months and subtract the amount you saved during the same period. Or, if you prefer, track your total monthly expenses. Expenses include everything: mortgage or rent, car and related expenses, credit-card payments, groceries, insurance, and utility bills. Also add in every lunch,



compact disc, or soda you purchased. After totaling these expenses, multiply this figure by the number of months for which you'd like an emergency fund to sustain you.

Then calculate the total amount of liquid assets you have, either in cash, savings accounts, or liquid investments, such as money market funds and accounts. Finally, subtract the amount of the desired emergency fund from the total liquid assets. If you have liquid assets remaining from this figure, your assets are sufficient. If you are lacking liquid assets, additional savings should be put away to reinforce your liquidity.

The following steps offer some help in adding to an emergency fund or in establishing savings by paying yourself first:

**1. Choose a convenient savings plan.** Have your employer deposit a portion of your paycheck into a savings/ investment account. Or you can have your check directly deposited to your bank account and have the bank automatically transfer a portion to savings. Another idea: deposit the check yourself and make arrangements with the bank/invest-

ment fund to have a fixed amount transferred within a day or two after you are paid.

**2. Start off easy.** To begin, you may want to deposit only the minimum amount required by the plan you select. The amount is less important than just getting started—the habit of saving is what is critical here. You can gradually increase the amount you contribute.

**3. Work up to your optimal savings rate.** Once you are accustomed to the savings habit, fine tune your savings plan to reach your financial goals. Set dates for when you would like to accomplish these goals and work backward to figure out how much you need to save monthly to reach them. Many financial planners recommend savings of 5 to 10 percent of your income, but the exact amount is based on individual goals.

**4. Stick to your plan.** Add to your savings each time you are paid and don't let minor setbacks keep you from your schedule for meeting your financial goals. If you have a minor emergency, you may need to modify your savings plan temporarily or use an emergency fund that is already established, but resume your savings habit as quickly as possible.

**5. Measure your progress.** Maintain records of savings/investment plans to keep track of exactly what you have and the activity in your account. Periodically, review how you are progressing toward your financial goals—in just a short time, you'll see a big difference in your savings balance.

**6. Enjoy the accumulation of your wealth.** Use your savings and investments to pay for the goals you've set. Don't grow so enamored of your bank statement that you are reluctant to spend for the goals you established. Do, however, continue with your program—you'll enjoy the benefits for years to come.

After you've mastered this basic principle of paying yourself first, you are ready to take on new challenges in the other areas of financial planning. Work through the five areas and see what progress you can make. On the other hand, not all of us want to learn the details of financial planning. That's where professional assistance may help. If using a financial practitioner is for you, the following tips can help you identify a knowledgeable, ethical financial planner.

- Interview at least three financial planners before selecting one. Ask for recommendations from your friends, business associates, or professional organizations.
- Look for a financial planning license or credential, amount of work experience in financial services, membership in professional organizations, and licensing in areas such as investment advice, securities, or insurance.
- Ask the planner how he or she keeps up to date on changing financial regulations.
- Look for compatibility. Do you get along personally? Do the planner's background and strengths match your needs? If you have a specific financial planning concern—retirement or estate planning, for instance—find out if the planner has expertise in that area.

- Find out what you can expect. Clarify the extent of written advice, numbers of meetings, availability for special counseling, and whether you will be expected to purchase investments or financial products through the planner.
- Ask for references from clients with similar situations to your own. Then check those references.
- Request names of allied professionals, such as accountants and attorneys, if your needs encompass tax planning and creating or updating a will.
- Discuss how the planner is compensated for services: fee, fee-and commission, or commission only. Make sure you are comfortable with the compensation method. Also, make sure the planner is genuinely interested in your needs, not just in selling financial products.
- Finally, be sure you select a planner who does not categorize you or offer you the same plan provided to every other “single parent,” “rising young professional,” “soon-to-retire-executive,” “recent widow,” etc. Choose someone who sees you as an individual and who will address your specific needs.

## About NEFE

The National Endowment for Financial Education® (NEFE®) is a nonprofit 501(c)(3) foundation dedicated to helping all Americans acquire the information and gain the skills necessary to take control of their personal finances. NEFE accomplishes its mission primarily by partnering with other concerned organizations to provide financial education to members of the public—in particular, to underserved individuals whose financial education issues are not being addressed by others. These partnerships are an effective means of responding to the needs of many different groups within the general population.

In all of its partnerships, NEFE functions as an active participant by providing funding, as well as the logistics support and financial planning expertise needed to create personal finance programs and material for the public. NEFE also underwrites grants, fellowships, and research projects; and it facilitates the exploration of new ideas in the field of personal financial planning by sponsoring events for professionals throughout the financial services industry. To learn more about the National Endowment for Financial Education (NEFE) visit our Web site at [www.nefe.org](http://www.nefe.org).



## PERSONAL ASSETS & LIABILITIES WORKSHEET

Summarize your assets and liabilities using the worksheet below. Prepare this statement at least once a year to determine your financial status. Be realistic in valuing assets and use your records to get an accurate picture of your liabilities.

### ASSETS

1. Cash	
• on hand	_____
• savings/checking	_____
• money market account	_____
• cash value of life insurance policies	_____
2. Fixed-Income Investments	
• CDs	_____
• government securities/funds	_____
• mortgage-backed securities/funds	_____
• corporate bonds/bond funds	_____
• municipal bonds/bond funds	_____
3. Investments	
• stocks	_____
• mutual funds/ETFs	_____
• collectibles	_____
• limited partnerships	_____
• other	_____
4. Real Estate Investments	
• undeveloped land	_____
• directly owned, income-producing property	_____
• real estate investment trusts (REITs)	_____
5. Personal Assets	
• personal residence	_____
• automobile(s)	_____
• jewelry	_____
• household furnishings	_____
• vacation home	_____
• other	_____
6. Business	_____
7. Retirement-Oriented Assets	
• IRA (Traditional/Roth)	_____
• Keogh	_____
• 401(k), 403(b)	_____
• employee thrift/stock purchase plans	_____
• annuities	_____
• company (vested in pension, profit sharing plans)	_____
• other	_____
8. Other	_____
Total Assets	_____

### LIABILITIES

1. Short-Term Debt	
• credit cards	_____
• utilities due	_____
• personal loans	_____
• rent/mortgage due	_____
• income taxes due	_____
• local/property taxes due	_____
• insurance premiums due	_____
• other	_____
2. Intermediate-Term Debt	
• education	_____
• vehicle(s)	_____
• home equity loan/line of credit	_____
• other	_____
3. Long-Term Debt	
• personal residence	_____
• vacation property	_____
• rental property	_____
• undeveloped property	_____
• other	_____
Total Liabilities	_____

### CURRENT NET WORTH

Total Assets	_____
Total Liabilities	_____
Current Net Worth	_____