# My Perfect Plan

Smile more.

* – unknown

THIS COURSE aims to help users interested in retirement planning topics new topics, explore potential planning opportunities, and develop investing and distribution philosophies. In addition, this course provides personalized assessments to communicate financial preferences to others.

With this experience, we aim to make financial planning more accessible and enjoyable and to provide users with the foundational knowledge required to plan for retirement effectively and efficiently.

[[img:1]]

My Chapter objectives:

* Understand what is the “perfect” financial plan
* The importance of making personalized financial decisions
* Discovering objectivity
* When to seek out professional help
* Assigning roles
* Identifying goals for this course
* Understanding how planning has changed

## 1.1: What's The Perfect Plan?

THE INDIVIDUAL holds the power to define what is the “perfect” financial plan. It’s their money, and they are the ones best equipped to make personal financial decisions, instilling a sense of control and confidence.

[[img:2]]

Most recognize “The Perfect Plan” when they see it.

The Perfect Plan tends to:

* Be sustainable using realistic assumptions
* Consider all variables and high-risk scenarios
* Be fact-based and not solely opinion-based
* Demonstrate a “vector" to meet or exceed assumptions
* Reasonably give all interested parties what they want

Know what you don’t know, yourself included.

This course will help by:

* Saving time
* Saving money
* Avoiding mistakes
* Reducing uncertainty
* Identifying personal preferences
* Developing a more cohesive strategy
* Enhancing confidence with decisions

## 1.2: Why Be Rational?

WHILE A plan is never truly “finished,” having a rational process does help maintain focus and reduce uncertainty and confusion, ensuring that all parties are on the same page.

A rational process translates to efficiency, spending more money with less frustration.

[[img:3]]

Furthermore, a rational process should allow one to internalize any planning subjectivity and view the totality of the financial planning landscape before deciding what or if to implement anything.

Having a specified plan of approach helps individuals stay on track and accomplish financial goals in a less stressful way. A plan constructed in this fashion is more organized, never rushed, and should be motivated by self-interest.

No one should ever care more about your money than you.

Once complete, the totality of the financial planning landscape should become apparent. At this moment, a genuinely rational decision can be made and executed with full confidence.

The benefits of having a rational planning process include the following:

* Plan recall, or the ability to pick up where one left off
* Higher decision confidence
* Opportune pace building
* More cooperative and substantial discussions
* Getting to the "truth"
* Identification of complex or time-consuming tasks
* Better coordination and greater efficiency
* More authority over the implementation process

[**The Future of Financial Advice Is Today**](https://adviceonly.info/the-future-of-financial-advice-is-today/)

**Financial planning is becoming much more about you, the client. For the first time in history, the landscape for objective financial guidance is finally taking shape.**

### Why seek the objective truth?

We define objectivity as the concept of truth independent of individual subjectivity. It is the process of reaching independent conclusions distinct from any end product or service. It is a personal interpretation guided by a process in pursuit of truth through knowledge. Objectivity is about embracing a rational process, seeing what follows, and drawing independent conclusions.  
  
Objectivity is “thinking for yourself,” without it, uncertainty thrives.

### How can I prioritize my lifestyle?

The lifestyle planner exercise is a crucial tool providing essential qualitative insights about yourself and your loved ones. This exercise will introduce the most common personal objectives in retirement planning, all tailored to your unique circumstances. Remember, it's not just about the numbers; understanding what truly matters to you is equally, if not more, important. So, while the financial aspects are crucial, maintaining a rich and fulfilling experience in retirement is equally important.

Take a moment to reflect deeply on retirement objectives. Engage with the various aspects of the exercise, one by one, and start contemplating what holds the most significance and potential priorities over others. Some may be necessities, while others may be lifestyle choices. Remember, there are no right or wrong answers; embrace your unique perspective.

Exercise your freedom to assign a value to each of the categories. This process involves controlling your retirement planning and prioritizing according to your values. Consider adding notes for future reference to monitor how your priorities evolve, providing you with a sense of empowerment throughout the retirement journey.

Remember, the lifestyle planner is not a one-time task. It's a dynamic tool that should reflect your evolving priorities. Feel free to add or adjust the values of the exercise. Your circumstances are unique, and general categories may benefit from specificity. The aim is to identify your current priorities and reevaluate them as retirement approaches or even after retirement. This process will assist you in gaining deeper insights into your qualitative priorities today and over time.

It's important to understand that priorities can shift once retired, and the actual landscape of formal retirement becomes clear. Retirement planning is a complex process, and your priorities may change as you navigate different stages of retirement. Embrace this fluidity and be prepared to adapt your plans accordingly.

The future of advice is an objective and personalized experience. But ultimately, that's up to you.

Benefits of objective financial planning include:

* Greater confidence with personal decisions
* Simplicity and reduced anxiety
* Better organization and higher participation
* Greater financial stamina
* Reduced “sales pitch” fatigue
* Higher trust in end decisions and professional insight
* More control and understanding over consequential decisions

## 1.3: Me, Myself and I

FINANCIAL DECISIONS are only sometimes predictable or transparent. Additionally, many financial subjects change annually and are not static objects. Financial decisions regarding tax, investments, income, health, and personal affinities are often highly subjective.

### Life is not math.

Financial and personal preferences often clash. These conflicts potentially result in disjointed and rushed decisions, requiring more context and frequently manifesting into uninformed guesswork.

The culprit is frequently the unknowable subjectivity of the financial plan. If planning were simply a mathematical equation to “solve,” the process would be finite and much less subjective.

### Having a Battle Plan

The perfect financial planning strategy will not materialize through happenstance. It requires context and an in-depth analysis of all possible outcomes. A cohesive strategy forms and a plan of attack ensues.

In planning strategy serves as a roadmap to guide financial decisions and actions, aligning them with long-term goals and aspirations.

This strategy should encompass various elements, including savings and investments, debt management, insurance coverage, tax planning, and retirement planning. Each component is carefully considered and integrated into the overall plan to ensure alignment with your financial objectives.

With a cohesive strategy in place, one can develop the best plan of attack. This involves setting specific, measurable, achievable, relevant, and time-bound methods. Preparations should also include identifying the steps necessary for maximum effect, such as adjusting a savings rate, targeting certain debt, modifying investment selections, or modeling buy/sell scenarios.

Financial decisions today can reverberate for generations. How are the financial planning game pieces distributed, and are my pieces best positioned to win the game?

Financial planning is not merely a mathematical problem; it is subjective. These critical decisions can have consequential, long-lasting effects on the viability of financial success.

Many variables may not be known or easily predictable, and certain complications may be unavoidable. Retirees should familiarize themselves (at least once) with as many financial concepts as possible so that only the unknowable “wildcards” remain, reducing the number of unknown variables that can potentially disrupt the plan.

It’s called planning for a reason.

### When to consider professional help

Retirement decisions are often the most consequential decisions a person can make. They affect all aspects of life, happiness, and long-term financial success in retirement. Sound financial decisions will come with assurances and a reasonable certainty of success.

There is no better motivator or confidence builder than knowing what will probably happen financially.

There is value in the financial professional. This value is the direct, hands-on experience working with a multitude of clients. That experience includes evaluating how others accomplish goals, avoid failure, settle subjective matters, and ultimately bring those experiences to the discussion.

Wouldn’t someone who does plans and educates the public have the best insight into financial planning?

At some point, the individual must make the best judgment possible and ideally base these decisions on as much qualitative and quantitative information as possible. This is the critical moment when it makes the most sense to seek the counsel of a qualified, ideally objective, financial, tax, and estate planning professional(s).

As the landscape for objective advice begins to shape for the first time in history, opportunities to find professionals who offer this service will become more widely available.

Situations when to consider professional advice include:

* As a mediator or when seeking an outside perspective
* Anytime one is feeling misinformed, overwhelmed, unclear, or unsure regarding important financial decisions
* When seeking inspiration
* To confirm whether an existing strategy is viable or if there needs to be a change

# Expenses

Have no fear of perfection. You’ll never reach it.

* Salvador Dali

BUDGETING IS one of the most disliked and neglected aspects of the financial planning process. However, the sustainability of a financial plan can only be determined with a reasonably clear idea of personal expenses and how they could change over time. Having a realistic budget can secure your financial future and ensure peace of mind.

My chapter objectives:

* Understand the importance of calculating personal expenditures
* Learn how spending might change over time
* Identity a personalized inflation rate
* Estimate longevity
* Pick a realistic retirement date

## 2.1: Being Real

BEING REALISTIC about retirement expectations means setting achievable goals and understanding the financial implications of these goals. It's an essential first step in the financial planning process. If married or in a partnership, both individuals must be on the same page about what they want out of retirement. By 'being real,' we mean setting goals within your financial means and understanding the potential challenges and adjustments that may be required to achieve them.

[[img:6]]

A financial plan with a high probability of failure “baked in” is unrealistic.

The 2022 EBRI Retirement Confidence Survey, a comprehensive study conducted by the Employee Benefit Research Institute, provides valuable insights into the retirement landscape and the financial preparedness of individuals. This survey is a reliable source of information for our discussion on retirement planning.

According to the EBRI survey, the top reasons workers retired earlier than expected were due to:

* Health-related reasons
* Job changes or obsolescence
* Feeling financially capable

### Are retirees being real?

Historically, the same study has consistently reported that of the individuals surveyed, 7 in 10 workers and 8 in 10 retirees were “confident in having enough for a comfortable retirement.”

Additionally, 70% of workers think they will continue to work for pay in retirement, yet only 27% of retirees reported actually doing so. This response has been consistent with responses in prior surveys.

Earlier, EBRI Retirement Confidence surveys reported that most workers or their spouses have never tried to calculate how much money they will need to save for retirement to live comfortably. This response has also been consistent with EBRI survey responses over the past decade.

Of those taking the survey and among those who have attempted to calculate expenses, most admit they have not relied on professional advice.

## 2.2: My Expenses

FOR PLANNING to be effective, individuals must have a reasonable sense of the relationship between available cash flow and ongoing expenses. The difference is the “firepower” needed to achieve financial objectives. Understanding personal expenses empowers the individual to take control of their financial situation.

Having a reasonable system to identify expenses helps the planning process. That’s because no realistic assumptions for positive cash flow can truly ever be determined. As a result, no financial planning strategy can be relied upon, so confidence in the plan is diminished. The relationship between expenses and cash flow is where the “rubber meets the road.”

[[img:7]]

Breaking the budget once in a while is human nature. Plan on it.

Fortunately, creating a helpful budget can be simple. It can be as simple as isolating essential and non-essential or “discretionary” expenses.

A realistic budget will identify:

* Available cash flow needed to achieve financial goals
* Non-essential or “discretionary” expenses that can be eliminated or reduced (if required)
* General spending behaviors and patterns

### How do I keep a budget?

Creating an accurate budget is not just a step in planning; it's the cornerstone of cash flow analysis. A realistic budget comes with understanding a financial plan's long-term sustainability. It can be simple but essential for many critical financial decisions.

The most challenging part of the budgeting process is gathering information. But don't worry, it's much more manageable than it seems. You can easily download all your year-end expenses from the bank in a .csv or spreadsheet format. Open the file and copy and paste all the values into the course material spreadsheet.

Once done, ensure the values are positive numbers. If not, you can quickly convert negative values to positive ones using the ABS function.

To simplify, Copy (ctrl+c) and Paste special → Values only (Ctrl+Shift+V). Now, all the hard work is done.

Once you've got all the numbers in the spreadsheet, classify them. The sheet should automatically populate the embedded chart with your data. But don't stop there. Add more colors, customize, and get creative to get the results you're looking for. Your budget reflects your financial goals and aspirations, so take pride in finessing them.

For most people, reworking a budget more than once a year is probably unnecessary. However, how frequently remains a personal choice. We recommend revisiting it every so often to maintain a sense of expense. It can be helpful when working with a financial professional who may need to know how much expense pressure to assume when modeling withdrawal scenarios. In particular, those approaching retirement should revisit the exercise before and after formal retirement.

## 2.3: Understanding Inflation

MONEY’S PURCHASING power erodes over time. Solely depending on what has been the historical inflation rate is no guarantee of future inflation.

The Consumer Price Index (CPI) can provide a basic understanding of the changes in consumer prices over time and the general direction of an individual's expenses.

### What’s the CPI?

The Consumer Price Index (CPI) is a widely used measure of inflation. It provides a comprehensive overview of the change in prices of a representative basket of goods and services purchased by consumers. In other words, it's a tool that economists and financial planners use to act as a rough benchmark of how the cost of living is changing over time.

[[img:8]]

However, scholars argue that the CPI doesn’t perfectly report regional price variations for specific groups. For instance, Americans living in expensive cities may have much different spending behaviors than Americans living in suburban or rural areas.

Another consideration of the CPI is that it may only sometimes reflect certain expenses.

Data limitations of the CPI should prompt retirees to consider how inflation might differ among certain expenses.

Examples include:

* Education
* Medical costs
* Housing

### Inflation Rates

Most financial professionals agree that using a 3% inflation rate is a good place to start.

Historically, inflation has averaged about 3% over 30 years.

When adjusting for inflation, the individual may customize an inflation rate for specific items. Common expenses one might separately consider to the standard 3% inflation rate may include:

* Certain medical costs
* Education expenses
* Food preferences
* Transportation requirements

“The improved confidence could be linked to increased confidence in income, with 28% of workers and 32% of retirees attributing their confidence to stable finances.1 This is supported by the U.S. Census data indicating that wage growth is exceeding inflation growth.”

The economic response to the COVID-19 pandemic has resulted in a mixed picture. On one hand, unemployment is currently lower, the stock market is higher, and job creation is faster than pre-pandemic levels. These are positive indicators not seen in recent decades. On the other hand, the cost of living has increased significantly due to inflation, which has affected many countries worldwide. While the US has experienced a tough bout of inflation, it has fared better than other G7 nations in this regard. Currently, wages are outpacing prices, suggesting that workers are gaining ground even with inflation. However, it is important to recognize that these are aggregate figures, and the impact of inflation can vary considerably among individuals and households. It's reassuring to note that the government is actively working to address the issue of rising costs and mitigate the negative effects of inflation.

### It’s Our Economy

Historically, the Federal Reserve and policymakers have used various methods to address rising inflation.

These methods include:

* Monetary Policy: Central banks like the Federal Reserve can raise interest rates to curb borrowing and spending, thus reducing demand and slowing down price increases
* Fiscal Policy: Governments can use taxation and spending to influence the economy and manage inflation
* Supply-Side Policies: Addressing supply chain disruptions, increasing productivity, and promoting competition can help mitigate inflation by increasing the availability of goods and services

### Economic powers beyond inflation

The Bureau of Labor Statistics (BLS) is the primary agency responsible for tracking inflation and wage-related statistics in the United States. The BLS publishes the Consumer Price Index (CPI) and the Producer Price Index (PPI), which are widely used measures of inflation.

The CPI measures the change in prices of a basket of goods and services purchased by consumers. The PPI measures the change in prices of goods sold by producers. Both the CPI and PPI are published monthly and can be found on the BLS website.

Wage growth can positively impact individuals and households by increasing their purchasing power and improving their standard of living.

While wage growth exceeding inflation and falling unemployment rates can be indicators of mitigating inflation under certain conditions, they are not guaranteed solutions.

Indications that support mitigating inflation.

* Increased purchasing power: If wages grow faster than prices, people have more disposable income. This can stimulate demand, leading to increased production and economic growth, which can help counteract inflationary pressures.
* Reduced unemployment: Falling unemployment rates usually mean more people are earning wages. This can increase overall economic activity and potentially dampen inflation through increased supply.
* Increased productivity: Wage growth is sometimes tied to increased productivity. If workers produce more goods and services, this can help keep prices stable or even lower.

Indications that do not support mitigating inflation.

* The Wage-price spiral: Businesses sometimes raise prices to cover increased labor costs. These increases by businesses can lead to a cycle in which wages and prices trend upwards, potentially fueling inflation rather than mitigating it.
* Demand-pull inflation: Increased purchasing power due to higher wages could lead to excessive demand for goods and services, exceeding supply and driving prices up.
* Other factors: Supply chain disruptions and global events can also affect inflation, potentially counteracting any mitigating effects of wage growth and low unemployment.

The relationship between these factors and inflation is complex and influenced by various economic forces.

# Cash Flow & Net Worth

Progress is getting nearer to where you want to be.

* C.S. Lewis

AN ACCURATE cash flow statement and a comprehensive Net Worth Statement are crucial when analyzing a financial plan's overall health and long-term sustainability. This is particularly vital for individuals in or nearing retirement.

My Chapter Objectives:

* Utilizing financial statements
* The proper use of debt
* Key tax terms
* Facilitating tax flexibility
* Real Estate for income

## 3.1: Key Planning Documents

TO GET a basic idea of a retirement plan’s sustainability, at least two documents are required:

* A Net Worth Statement (or Balance Sheet)
* A Cash Flow Statement

[[img:9]]

Net Worth Statement: A document that shows a global overview of an individual’s financial situation. An up-to-date net worth statement helps clarify the specific components of the financial plan to any interested parties.

A Net Worth statement will:

* Provide a basic sense of financial health
* Help identify the overall savings available for sustainable distribution upon retirement

Cash Flow Statement: A document that shows annual (or monthly) inflows and outflows. A detailed cash flow statement allows for a deeper analysis beyond expenses alone. It identifies where money is coming and going and helps pinpoint possible improvements when finding new resources to improve planning outcomes.

A cash flow statement summarizes income and expenses over a period. It combines budgeting with assumptions. Benefits include identifying areas for improvement or verifying the validity of planning assumptions.

Key components include:

* Cash inflows (income): Salary, investment income, rental income, business income, required minimum distributions (RMDs), and other income.
* Cash outflows (expenses): Fixed expenses (housing, transportation, debt payments, utilities, insurance). Variable expenses (food, entertainment, personal care, medical care, and taxes).
* Net cash flow: Calculated by subtracting total cash outflows from total cash inflows

A Cashflow Statement will:

* Measure the amount of annual positive (or negative) cash flow
* Help develop a realistic “vector” and identify the overall long-term sustainability of the financial plan
* Help to chart financial potential
* Help to identify potential tax efficiency, coordination tactics, and other financial planning opportunities.

Having professional help when analyzing financial planning documents is a good idea.

### How can I estimate my net worth?

A Net Worth statement, or Balance Sheet, is designed to be simple. It provides a comprehensive overview of your financial situation on a single page, clearly showing your net worth (assets - liabilities).

Start by evaluating your financial life by jotting down your possessions: your home, car, retirement account, and even artwork. Assign a value to each item you think it could realistically fetch if sold. Next, think about your financial obligations: a mortgage, credit card debt, or loans against a 401(k). These are your liabilities.

When filling out the balance sheet, start by entering the approximate gross values of your assets in the assets column. These are the values before any liabilities are deducted. Next, record any liabilities, which are the debts associated with your assets or separate financial obligations.

Take greater control of your financial situation and track your net worth over time. Generally, the goal is to increase net worth as market investment performs, property values appreciate, and liabilities get paid off. However, it's also common (especially in retirement) for specific assets like investment accounts and cash reserves to decrease as money is spent.

Over time, remember that the balance sheet is a flexible tool. It's important to keep it relevant, as it quickly and easily conveys your financial position to interested parties such as family or trusted professionals. A balance sheet also acts as a helpful resource when money needs to be raised for an unexpected event.

## Learning Objective 3.2 Positive Cash Flow

POSITIVE CASH FLOW is new money identified as being available to save or deploy in addition to what is already being spent or contributed towards savings. It is the ‘firepower” available after everything to increase or better coordinate additional money needed for tomorrow's retirement goals.

Tips to improve cash flow may include:

* Eliminating or reducing non-essential expenses
* Increasing income or working longer
* Selling or rethinking an existing asset’s strategy
* Being more tax-efficient
* Taking (or delaying) social security or a pension
* Refinancing or tapping into a home’s equity

Once positive cash flow is identified, one can start determining and consistently setting aside savings. Assess how much can be saved, then decide where to save it. This savings location decision should be based on the appropriateness of the savings vehicle, eligibility to contribute, the correct type of contribution (e.g., pre or post-tax money), and tax savings today versus tomorrow.

[[img:10]]

Typically, advisors suggest saving around 15% of gross income. However, this is a broad recommendation. Various factors collectively determine what’s needed to meet retirement needs.

### How can I calculate my savings?

Use this exercise to coordinate savings locations. Determine the current level of savings versus total gross income (or income before any deductions or taxes). Generally, retirement savings are money set aside for longer periods. These dollars are targeted for retirement income or to supplement future retirement expenses and likely have a much different strategy than more near-term dollars.

Start by researching your various savings accounts. These could be employer retirement plans, such as a 401(k), or supplemental accounts, like a Roth or post-tax account. Typically, bank checking accounts are money set aside for emergencies or planned expenses, so contributions may not be part of retirement-oriented savings.

Next, finalize the spreadsheet by adding the account name, type of account, taxable nature (e.g., Traditional or Roth), and contribution amount (bi-monthly, monthly, quarterly, or annual). If a participant has access to multiple plans, ensure the accuracy of contributions and that there is no overfunding. The spreadsheet should automatically validate total savings and then convert this total to a percentage relative to gross income. The beauty of this exercise is its flexibility. Our general guideline is to save approximately 15% of gross income; however, this can vary significantly depending on savings requirements and life stage.

Consider other areas for savings, such as reducing discretionary spending, cutting down on unnecessary subscriptions, or finding ways to save on utilities. If needed, use our budget worksheet, a tool designed to help you track your income and expenses, to help identify these areas of improvement. You can then redirect these dollars toward savings.

Commit to revisiting this worksheet periodically to ensure the current level of retirement savings is on pace. Remember to update gross income and individual savings amounts to reflect your overall savings accurately.

## 3.3: Compounding Interest

COMPOUNDING INTEREST uses the reinvestment of interest to grow an investment over time. It is the key to offsetting long-term inflation and building foundational wealth, essential for any financial plan’s long-term stability.

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The essence of wealth creation is setting money aside for a very long time.

Investment results will vary from those shown here. Investing involves risk, inconsistent returns, and the possibility of a loss of principal. The investment results shown are hypothetical and are for illustrative purposes only. The calculations do not consider any taxes, inflation, or fees. The figures do not represent past or future investment results and do not represent any specific product.

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