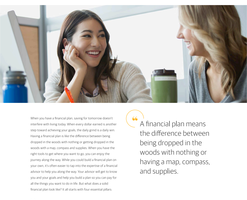
The 4 Pillars of a Solid Financial Plan

The future is brighter with a financial plan in place, and every good plan has these four essential parts.



When you have a financial plan, saving for tomorrow doesn't seem like a chore anymore. Instead, it's a fun challenge that helps you achieve your goals, like finally getrid of that pesky nagging financial worry, or even being able to finally stop being dropped in the woods with no map, compass and supplies. When you know the right tools to get where you want to go, you can enjoy the journey. Whether you're just starting your financial plan or you've been on it for a little bit, now is the time to sign up for the benefits of financial advice to help you along the way. Your advisor will get to know you and your goals and help you make a plan so you can go for all the things you want to do in life. And what does a solid financial plan look like? A plan with four essential components:

> A financial plan means the difference between being dropped in the woods with nothing or having a map, compass, and supplies.

1. UNDERSTANDING YOUR CASH FLOW

   How much money comes in and goes out the door every month? What you spend and what you earn is your cash flow, and you want your cash flow to be positive. That way you can save for what's important to you now while also saving for all the things you want to do in the future.

2. STREAMLINE DEBT REPAYMENTS

   Carrying debt is like swimming upstream – it slows you down. You and your financial advisor will carve a path in the budget to strategically prioritize debt and recognize how they choose a course of action. The sooner you're swimming with the current, the easier it gets.

3. SAFEGUARD TODAY AND TOMORROW

   Planning isn't just setting goals and saving money. It's also about following life's ups and downs and preparing for both. Protecting your income and your loved ones is important, and so is having a plan for what happens if you can't work because you lose your income or become disabled. You don't have to worry about "what ifs" anymore, thanks to a plan.

4. SET SAVING AND INVESTING GOALS

   Perhaps saving for your children's education is an important goal for you. Maybe it's making memories on family vacations. Or maybe it's being able to retire and live the life you've always dreamed of. Whatever it is, we want to do it in life, your advisor will help you set aside money to grow over time and help you make the most of your cash flow so they can help you reach your goals.

Now, let's take a closer look at each pillar of a financial plan, as well as a few money management tips that you can put into practice today.

1 UNDERSTAND YOUR CASH FLOW

As a first step, you need to know what you're working with, especially if you want to find your cash flow. "Where did all my money go?" at the end of every month is a common question that we hear a lot, and if you can fully see the movement of money into and out of your accounts, it's proven a boon for improvement. While there's no one-size-fits-all budget, you can see how your spending, from its spring your spending into two broad categories: committed and discretionary expenses.

COMMITTED EXPENSES

These are the necessities that you don't pay or need to pay every single month. They're your fixed expenses and make up the bulk of your monthly budget (about 50 percent).

DISCRETIONARY EXPENSES

These include necessities, like bread, gadgets and nights out on the town – everything that makes life fun (about 20 percent of your budget).

2 SAFEGUARD TODAY AND TOMORROW

Hitting goals on schedule depends on steady, reliable income – but life, we all know, is unpredictable. You insure your car or home, but your greatest asset is your income. Your ability to earn a paycheck is what allows you to pursue your dreams. Insurance or disability coverage protects that. It doesn't have to be pricey. By purchasing the right mix of insurance policies, you may life coverage, buy your plan smart. Here are the main policy types you'll want to consider:

HEALTH INSURANCE

If you stuck full time, you're likely receiving some health insurance benefits through your workplace. Medications and treatment can be expensive, which means health insurance is a top priority to help manage those expenses. Be sure to examine your health insurance policy through work to make sure your coverage matches your needs. You can always purchase health coverage in the open market if you aren't covered or need additional coverage.

PROPERTY AND CASUALTY INSURANCE

This essentially protects everything you own. From the roof over your head to the car you take to work each day, it's time to take a look at your home or your auto insurance policies. Your insurance company will ask you a series of questions to make sure it's the right fit. A wise protect your a cover you are fixed legally bound to cover that repair, provide and/or or damages caused by a covered loss. Many also cover the other person's medical bills, lost wages, legal fees, and pain and suffering. It also covers you in case you are injured by someone who doesn't have proper coverage.

DISABILITY INCOME INSURANCE

This kind of insurance pays a benefit when you get sick or injured and will replace a portion of lost income when you can't work. You'll typically receive disability benefits through your employer, but if you don't have access to it, you can purchase it on your own. Disability insurance aligns with your goals. You can pick a benefit you're big enough to cover your income needs (would you insure your home enough to cover 50 percent of its value if it burns down?). If coverage through work isn't quite enough, you can easily purchase additional coverage.

LIFE INSURANCE

If you have people who depend on you financially, life insurance is an essential part of the safety net you provide for your loved ones. Life insurance can be a lump sum that your family can use to help cover their expenses when they can no longer depend on your income. A term policy is an inexpensive way to maximize coverage within a specified window of time, while a permanent life insurance policy is pricey but the extra additional benefits that can become a key part of your financial plan during your life.

THERE'S A WHOLE WORLD OF DEBT REPAYMENTS

Permanent life insurance policies have a few added features that provide additional value beyond a term life insurance policy. Here are a few:

- **Cash Value:** Permanent life insurance policies have a savings component that allows you to take advantage of tax. What's more, cash value is a valuable financial asset that can be used to supplement retirement income. Life insurance is guaranteed to never decline. Dividends paid by insurers, though not guaranteed, can help cash value grow even more.
- **Flexible Retirement Funds.** If you no longer need the death benefit, it's time to review your coverage. Perhaps you want your policy cash value to be used to supplement other sources of guaranteed income in retirement such, such as Social Security or a pension. You can also access your cash value in lower numbers to generate tax-efficient income, rather than selling investments as depreciated assets.
- **Long-term care.** Some permanent life insurance policies allow you to access your death benefit to pay for long-term care expenses. You may need to purchase an additional rider for long-term care benefits.
- **Legacy.** Because permanent life insurance will pass a death benefit when you die, you can leave something behind for your loved ones.

3 STREAMLINE DEBT REPAYMENTS

Every dollar earned should get you closer to achieving your goals. Unfortunately, when you're carrying debt – especially high-interest debt – it can feel like a heavy anchor that holds back a credit card company's cash in the form of payments. Streamlining debt is all about giving your money out of their hands and into your hands.

> Getting out of debt is all about getting your money out of your creditor's hands and into yours.

To start doing that, round up every loan you have and note the amount that you owe and the interest rate charged. Then, you'll decide where to make accelerated payments (paying more than the minimum due. If possible), and where it's OK to keep paying the minimum. Here's how to prioritize your debt:

1. **High-interest credit cards come first.** Credit cards carrie spending easy, but many charge a sizzle. Let's say you have a credit card with a 20 percent interest rate and a student loan with a 5 percent interest rate. If you make a payment of the balance, of over 10 years to pay, of what, since $20,000 borrowed with an paying $300 to repay which you factor in interest charges – each. That's why credit card debt should be first on go. Start with the account that's charging the highest interest rate, then move onto the next highest rate and so on. Pay off the rest of your debt last.
2. **Non-deductible debt comes next.** Once the credit card debt is gone, focus on all the debt that doesn't benefit you or tax time. Interest paid on car loans and personal loans isn't deductible, so it's best to pay off that over you interest expenses over the long run.
3. **The rest of your debt comes last.** Interest on mortgages, home equity loans and some student loans may be deducted at tax time. That's why these are considered "good" debt. While these need to be paid off of course, there's really no reason to accelerate payments. Instead, you may want to use those funds for your other financial goals.

4 SAVE AND INVEST

Now it's time to think long and hard. Are Wisconsin factors tax, Social Security age to collecting SS. Everest, Dunning Kruger, starting your own business? Are you a Gen X, Y, or Z? Are you married? Are you a dog person or a cat person? Are you a Cubs fan or a Sox fan? Are you a Packers fan or a Bears fan? Are you a Brewers fan or a Twins fan? Are you a Vikings fan or a Packers fan? Are you a Bucks fan or a Bulls fan? Are you a Badger fan or a Gopher fan? Are you a Badger fan or a Buckeye fan?

- **Establish your emergency fund.** Your first rule is to build an ample emergency savings stash that can be easily accessed if something happens. It's generally a good idea to have enough to cover six months of expenses in the account. This will prevent you from charging an emergency expense to a credit card or taking money from your retirement savings.
- **Contribute to your retirement savings.** Retirement savings are contributing to your employer plan, typically that's a 401(k). Make sure you are contributing at least the amount your employer matches – if your company matches 3 percent of your salary, make sure you are contributing at least 3 percent from each paycheck – it's free money. Also, don't forget to increase your contributions when you get a bonus or raise! If your employer doesn't offer a 401(k) match, you should consider opening a Roth IRA or a traditional IRA.
- **Further save to reach your goals.** Start saving for a car or a down payment on a house. Or, open your own Roth IRA for tax-diversity with retirement savings. Depending on your income, there's a strategy for it.
- **Stay for college.** Education can be pricey, and if your family is growing a might be a good time to start some money into a 529 plan, which is a tax-advantaged savings account that allows you to save and invest money for college. Earnings and withdrawals can help you fund college.
- **Maximize your money.** Diversifying where you save wouldn't only be maximizing good and tax efficiency in retirement, because every type of account has its strengths and weaknesses depending on your goals. Tax-advantaged savings, like Roth IRAs and 529 plans, tend to be better for long-term goals while others are better suited for short-term goals. Again, a financial advisor can help you think strategically about how much and when saving and investment activities you should aim to reach your goals.

LET'S LOOK AT AN EXAMPLE: MEET BRIANNA

Brianna 25 years old single and building a career in advertising, and she's years ago like continuing to finals, now and thinking about promotions, saving for retirement, getting married buying a home – the whole new pacts. Her detailed her financial picture, and she's ready to take a look at her cash flow, and she's ready to take a look at her cash flow. Her professional to help her look plan. They worked together to develop a comprehensive plan both and her plan referenced above. Here's a look at how a of a one-surprise for someone her age.

CASH FLOW

Salaries
Brianna $54,000
Her month $28K

Savings
Cash $2,000
Retirement $6,000

Debt
Student loans $20,000
Credit card $5,000

Fixed Expenses: $1,425

Rent $1,100
Utilities $80
Cellphone $50
Cable/Internet $65
Car maintenance/gas $150
Parking/tolls $80

Financial Security and Goals: $1,800

Term life insurance $30
Individual disability $50
Student Loans $300
Auto insurance $65
Employer retirement plan $270
Roth IRA $500
Emergency fund $300
Credit Card $550 (accelerated payment)

Discretionary Spending: $2,347

Travel $550
Subscriptions $75
Miscellaneous $490

THE BRIANNA'S PRIORITIES

Brianna, along with financial advisor, built a budget that's tilted toward strengthening debt, establishing a safety net and saving for retirement:

1. **Eliminating debt.** You'll notice that a large portion of her income (roughly 42 percent) is going toward paying her credit card and student loan debt. Her advisor recommends taking her credit debt into consideration when planning a 20 percent interest introductory rate. Brianna identified that over and is now paying nearly twice the minimum payment to eliminate her debt sooner and within the promotional window. Given her age, the sooner she can cut her high-interest debt, the sooner she can save more in tax-advantaged accounts and take advantage of decades of compound growth – which is when a person moves or top of interest. Paying her credit card ahead of schedule will save her $4,000 in lifetime interest charges. A few months later, Brianna's credit card balance is $600.00 to the new Brianna is ready to retire (given a rather conservative 7 percent average annual return).
2. **Establishing a safety net.** Brianna's advisor also recommends the purchase an individual disability income insurance policy to protect her financial life and guarantee a steady income in a worst case scenario. Given her income and goals, Brianna's coverage through work wasn't enough. The advisor also encouraged her to increase her coverage to a lump sum that's enough to cover her expenses.
3. **Saving.** Brianna has a pretty good start with $5,800 in her 401(k) plan, but her advisor has diversify her retirement recommended she open a Roth IRA, which, unlike traditional retirement accounts, isn't subject to income tax on the contributions. Her tax-savings and withdrawals in retirement will be tax-free. This will afford Brianna more tax flexibility in retirement.

Brianna is left with $800 (or 4 percent) of her income. Her advisor and her previous plan called it "this is important, because if you take all the fun out of life, where is a critical plan, you are going to fail miserably. Ultimately, that's going to make it harder to stick with it. So, make sure you find ways to include the things you like to do."

MAXIMIZE YOUR MONEY

	VEHICLE	HOW IT WORKS	WHAT IT'S FOR
SAVINGS	Traditional Saving Account	Offered through a bank. It will pay a small amount of interest on your deposits. Money you can't afford to lose may need to access quickly	• Building an emergency fund • Growing short-term savings
	Money Market Bank Account	This works like a checking account but pays some interest, usually a small amount. It's a good place to keep money you may need to access quickly	• Building an emergency fund • Growing short- to mid-term savings
	Certificate of Deposit (CD)	A bank or credit union account that pays a pre-determined amount of interest over a fixed period of time, ranging from a year. There is a penalty typically for early withdrawal. CDs are a good place to put money you don't need for a while (but don't want for an emergency)	• Growing short- to mid-term savings
INVESTING	401(k)	The vehicle is offered through employers. Money goes in before taxes and grows tax-deferred until it is taken out. Withdrawals are taxed as income. Employers sometimes match some of your contribution limits. There will be a penalty if you withdraw funds prior to age 59.5	• Saving for retirement
	Roth 401(k)	This plan is similar to a 401(k). The key difference is that contributions are made with after-tax dollars. The amount you contribute is not deductible from your taxes. There is usually a penalty if you withdraw contributions prior to age 59.5	• Saving for retirement
	Individual Retirement Account (IRA)	An IRA allows you to make tax-deductible contributions. Investments will grow tax-deferred until you withdraw them, at which point they are taxed as income. There is an annual cap on tax deductions for contributions. There is also a penalty if you withdraw funds prior to age 59.5	• Saving for retirement
	Roth IRA	An IRA allows you to contribute money that has already been taxed. It will then grow tax-free and you can withdraw it tax-free. There will be a penalty if you withdraw earnings prior to age 59.5	• Saving for retirement
	529 Account	A 529 plan is a college savings plan, named for the section of the internal revenue code that allows for it. Contributions are not tax-deductible, but earnings are tax-free.	• Saving for college
	Mutual Fund	A pool of money collected from many investors for investing in stocks, bonds or other investment vehicles.	• Investing for mid to long-term needs • Saving for retirement • Saving for college
	Bond	Money lent to a company, government entity, or other organization in exchange for a fixed rate of interest. Bonds are typically less risky than stocks and can be a good place to put money you need to keep safe and growing in a short-to mid-term	• Investing for mid- to long-term needs • Saving for retirement • Saving for college
	Stock (also called equity)	Ownership of a share of a company's assets and earnings. Stocks are typically sold through a brokerage account.	• Investing for mid to long-term needs • Saving for retirement • Saving for college

LET'S TALK

You've now walked through the key financial planning steps in your life stages, and perhaps there are a few things you want to try out on your budget today. Now, it's time to put your financial professional. They'll help you apply these techniques to your real world finances, so you can do all the things you want now and years from now.