“THE CORE FOUR”

BUILDING YOUR FINANCIAL FRAMEWORK

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With the amount of information available to consumers today regarding their investments and the best ways to retire, it has become more confusing than ever for them to decipher where to begin. We hear every day how the markets are “overvalued” or a “correction is imminent”. The truth is, it is all speculation and no one really knows what is going to happen or when it is going to happen.

As a Financial Advisor, my job is to work with clients to implement a suitable strategy for their goals and objectives. Every client has a unique situation, some with long term goals, and others with short term goals. Regardless of your time horizon, a sound financial plan is the framework for success during bull and bear markets. Proper diversification and risk management strategies are the most suitable way to help my clients build a strong investment portfolio. However, financial planning goes beyond investments. What happens if you die prematurely? Will your family be protected? What happens if you get injured on the job? How will you get paid? With so many consumers not knowing where to start, and so many variables to root through, I have created a basic framework that everyone can follow to achieve the outcomes they hope to achieve for their financial objectives. I call it “The Core Four”.

“The Core Four” is a basic framework that can help guide clients in establishing a financial plan. Of course, every client situation is unique, and this might not work for everyone, but it is a place to start the conversation.

“The Core Four” is made up of Defined Contribution Plans (401k, etc.), Roth IRA/IRA, Life Insurance and Disability Income Insurance. I will go through how each of one these works and why they are important to consider in a financial plan.

Defined Contribution Plan

A defined contribution is an employer sponsored plan that allows you to contribute to a deferred investment vehicle such as a 401(k), 403(b), SEP IRA’s, etc. Typically, these plans offer a robust line up of active and passive funds, as well as Target Date Funds. What is a Target Date Fund? Quite simply, it is a fund designed to rebalance your equity to fixed income exposure as you get closer to retirement. The older you get; the fund will rebalance into more conservative securities such as bonds. If you are a younger investor, you will have more equity exposure since you have a longer time horizon and can tolerate volatility in your portfolio. It is a “set and forget” strategy. Most important; your employer may match your contribution up to a certain percentage. Today, most employers match to attract and retain talent. Your employer is giving you free money to help you reach your retirement goals. This is the number one piece of my framework, because you might be leaving free money on the table if it is being offered! If you are not contributing to your defined contribution plan, please start today. It is best to speak with your HR department to see what the investing and matching rules are as each employer has a unique plan.

Roth IRA/Traditional IRA

An IRA is an Individual Retirement Account, regardless of whether it is a Roth or Traditional. The benefits of an IRA are to provide you with options and flexibility, but most importantly, potential tax deferred growth on your investments. What does this mean? You do not pay taxes on any growth from capital gains or dividends until you begin to withdraw the money. This is important because while you are working, you are typically in a higher tax bracket than when you retire. So, generally you will be able to capture more from a tax deferred vehicle than a taxable vehicle. You may only contribute $5500 per year to all IRAs, if you are under the age of 50. If you are 50 or older an additional $1000 catch up contribution is also allowed. **(https://www.irs.gov/retirement-plans/plan-participant-employee/retirementtopics-ira-contribution-limits).** IRS discourages you from withdrawing the money until age 59 ½ to help encourage people to save for retirement. If you do take withdrawals before age 59 ½, you will have to pay a 10% tax penalty, as well as ordinary income tax on any gains. So, you do not want to tap into this money until you are retired. It is a way to help build a tax efficient nest egg while you are working.

For those who qualify, a Roth IRA is one form of investment vehicle in the marketplace today. A Roth IRA allows you to invest after tax dollars into an account that has the potential to grow tax deferred, and is then tax free when you begin withdrawals after age 59 ½. Since the tax benefits are so rich, there are income limits on who can invest in Roth IRA's. As of 2017, If you are a single filer, you can contribute if your income is less than $186,000 per year. If you are married filing jointly, you must have a combined household income of less than $196,000.00. (IRS website).

For those who do not qualify for a Roth IRA, a Traditional IRA is an alternative option. A traditional IRA allows you to make contributions to an account that grows tax-deferred, very much like a defined contribution plan. Once you begin withdrawals after age 59 ½, you will pay taxes at ordinary income rates.

Bottom Line: If you qualify, a Roth IRA is very likely a suitable tax efficient investment strategy that exists in the market today. The benefits of tax free growth and tax-free income are undervalued by many investors. If your earned income is too high, consider a Traditional IRA, as you might be able to benefit from tax deferred growth while you are still working. Even if you can only afford to invest $10.00 per month, you should start investing today. The effect of compounding interest is crucial in helping to maximize growth potential for your portfolio. Both of these potential options make up the second framework of “The Core Four”.

Life Insurance

What happens if you die prematurely? What would happen to your family? How would they pay for the mortgage or other expenses? Life Insurance is arguably the most important framework in “The Core Four”. If you are married, consider a term life insurance policy today! If you are married with children, get it now! You will be able to save on annual premiums the younger you are. The longer you wait, the more expensive it becomes.

Disability Income Insurance

What happens if you get hurt on the job or while playing a game of pickup basketball or tennis? What happens if you get into a car accident and can’t work? Disability Income Insurance can help protect you and your family in the event of an unexpected injury. Depending on your income, a Disability Income Insurance policy will be able to cover most of your monthly income when claimed. There are waiting periods involved, so choosing the right plan is very important. We can help you sort through the noise and find the most suitable policy for you.

“The Core Four”, is the foundation of building a strong financial future. As I stated earlier, every client’s situation is unique, and these may not be in the best interest of every client. However, this is a great place to start a conversation today about building a tailored financial plan to help meet your goals and objectives.

To schedule a meeting, you can email me at Brian.Walsh@wnfg.com

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