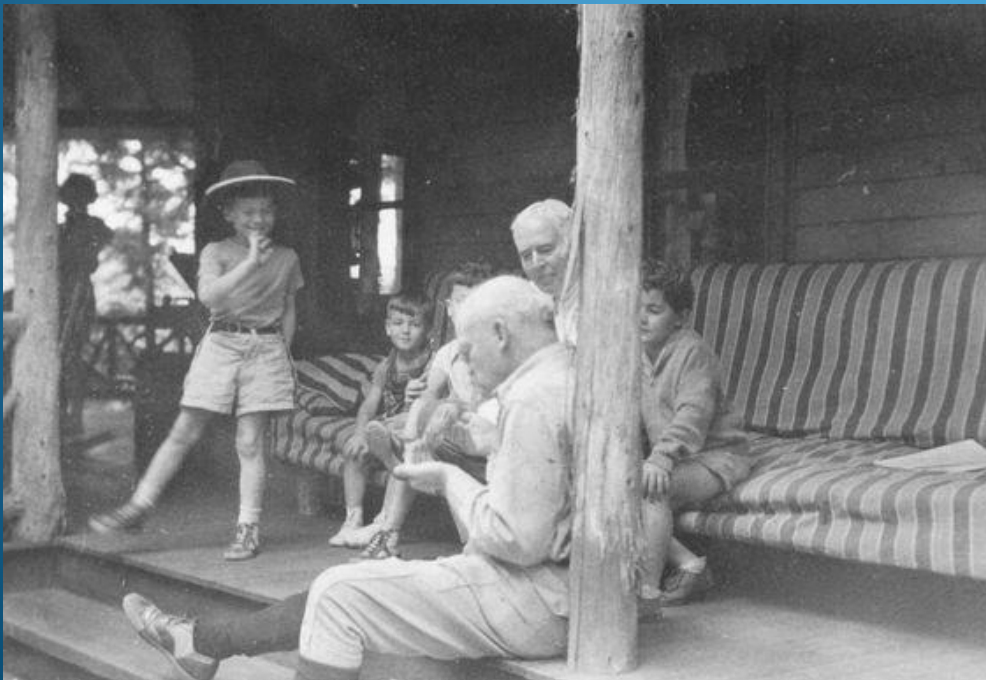


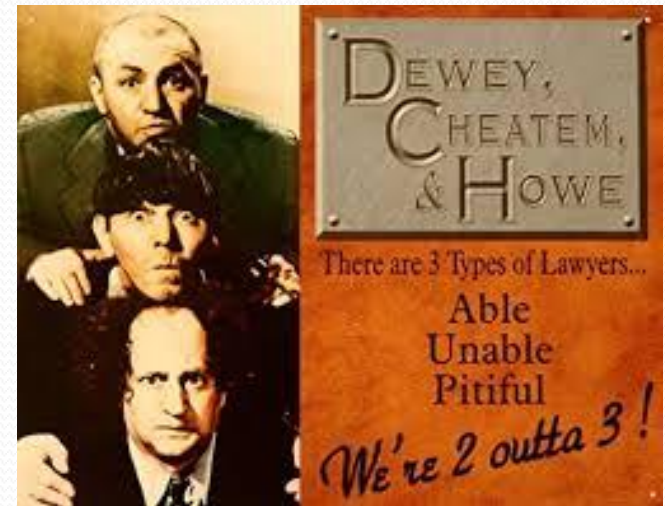
# Uncle Al's Personal Financial Planning Porch Talk



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# Compliance – ugh!

- I am not licensed to provide:
  - Legal advice
  - Tax advice
  - Financial advice
- I am not licensed to sell any financial products or services, nor am I affiliated with any financial companies
- I am an educator
  - Try to provide the +/- of your options



# More Compliance

- Tax laws differ:
  - From state to state
  - From year to year
- Insurance laws/cases are interpreted differently from state to state
- Please consult a qualified professional before taking any actions.

# Preparing For Opportunity

- Personal financial planning can help with:
  - Liquidity: having cash on hand = flexibility!
  - Repayment ability
  - Risk management: insurances
  - Family farm/business transition
    - Education planning?
  - Retirement

# Financial Plan

- Goals
- Cash management – budgeting & savings
- Debt management
- Income taxes
- Insurances
- Investments
- Education planning
- Retirement planning
- Estate planning



# My Goals for Today

- Get you thinking about your goals
- Basic household living budget
- Emergency savings
- Household debt management
- Life insurance
- Retirement
- Start the estate planning conversation



# We Have to Start with Goals

- Set LT-ST goals for your life

- Business goals
- Family goals
- Personal goals

**They all need to mesh!**

- Like your “To-Do List”

- Gets you thinking about what you need/want to do
- Provides direction/priorities for your actions
- Makes you slow down and think
- Let's you see what you've accomplished



# Have “That” Family Talk

- Talk about your goals
  - Family, personal, business....
  - How can you fund your desired life (goals)?
- Talk about your household finances
  - Build a budget ..... together
  - Balance the checkbook ..... together
  - Track your personal expenses ..... together
  - Revise your budget

***Start the  
Conversation!***

***Mint.com***



# FYI - You're Not Alone!

- ~40% of US adults have a budget & track it
  - So, ~60% of US adults don't?
  - Source: 2019 NFCC Financial Literacy Study
- 76% of Americans are living paycheck-to-paycheck (CNN)
- 25% of US adults do not or cannot pay their bills on time
  - Source: 2019 NFCC Financial Literacy Study



# You're Still Not Alone!

- 52% of Americans can't come up with enough cash to cover a \$400 emergency expense (Federal Reserve)
- 57% of US adults have less than \$1,000 in savings (GoBankingRates annual survey 2019)



# Budgeting

- Budget = itemized list of income & expenses
  - Related to your desired lifestyle
  - How you want to use your money
- On-line help\*
  - [www.Mint.com](http://www.Mint.com)
  - Others?
- Several formats – find one you like
  - Email me for an Excel spreadsheet (docwhite@vt.edu)



\* Uncle Al is not affiliated with these sites.

# Family Living Budget

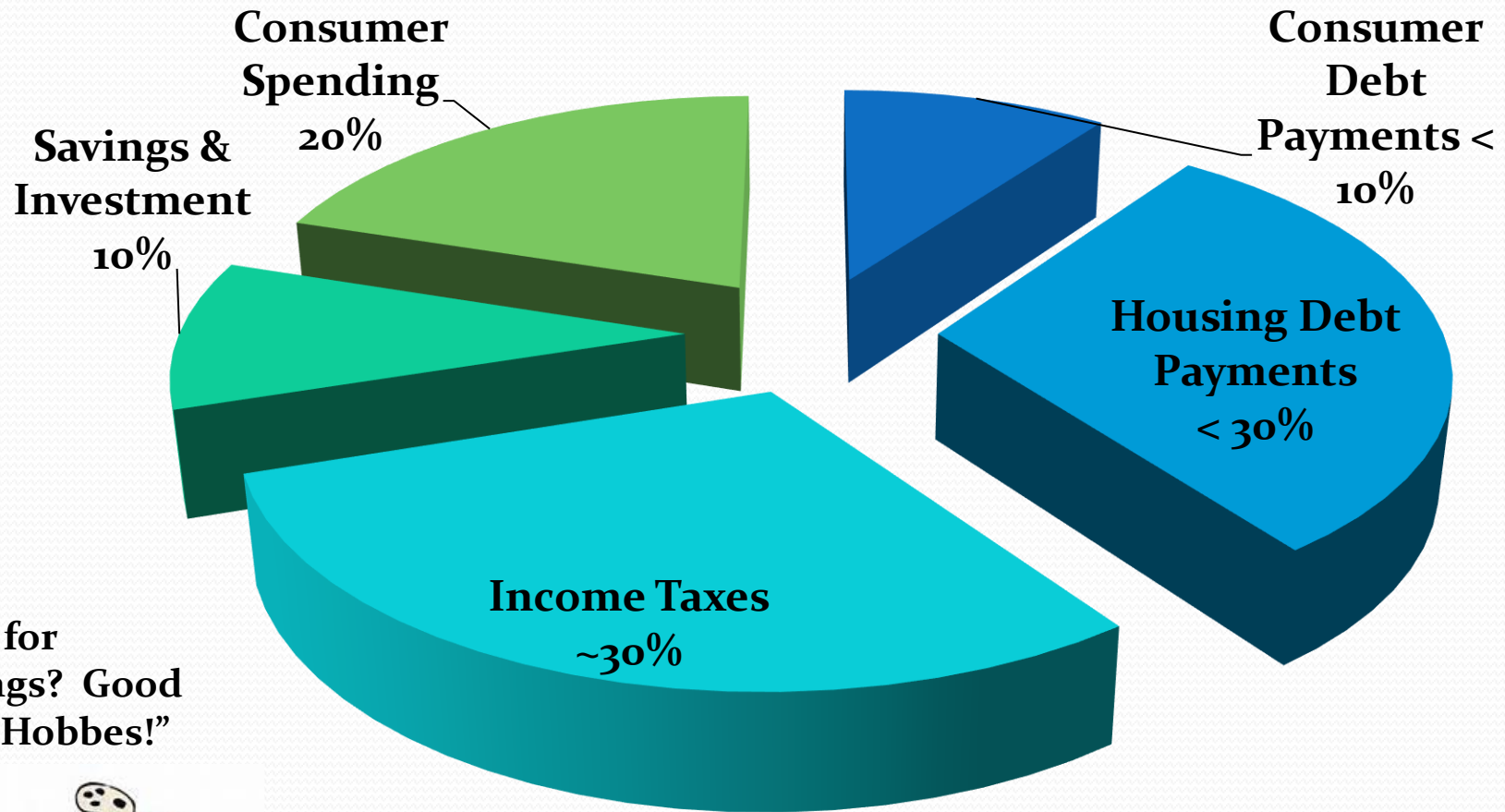
	Planned	Estimate
<b>Gross Income:</b>		
Owner Withdrawal (Farm)		
Salary & Wages (Non-farm)		
Other		
<b>A. Gross Income</b>		
<b>Income Taxes:</b>		
Federal, state, & local income taxes		Gross Income $\times$ 20%
FICA (7.65%)		Gross Income $\times$ 7.65%
<b>B. Total Income &amp; Payroll Taxes</b>		
<b>C. Take-home Pay</b>		Line A - B
<b>Planned Savings &amp; Investments:</b>		Goal: $>$ Gross Income $\times$ 5-10%
Emergency Fund (3-6 months)		
Retirement		See Next Page for Rough Estimates
Education		
<b>D. Total Savings &amp; Investments</b>		
<b>Expenses:</b>		
Rent or Mortgage Payment (PITI)		Goal: $<$ Gross Income $\times$ 30%
Consumer Debt Payments		Goal: $<$ Gross Income $\times$ 10%
Car Payments		
Outstanding Credit Card Balances		
Student Loans		
Other Consumer Debt Payments		
Utilities:		Goal: $<$ Gross Income $\times$ 5%
Phone, Internet		
Electric, Gas, Water		
Other		
Groceries + Food Away From Home		Average: \$250-\$300/adult
Gas, Oil, Repairs		Average: Gross Income $\times$ 3%
Insurance Premiums:		
Life		\$50/month
Auto		
Health		\$400/person/month
Disability		
Renter's Insurance		\$10/month
Other		
Personal Items		Average: Gross Income $\times$ 3%
Medical Expenses		Average: Gross Income $\times$ 5-10%
Taxes:		
Personal Property (autos, boats))		
Other		
Child Care		Average: \$1,500/child/month
Entertainment		Average: Gross Income $\times$ 3%
Miscellaneous		Goal: $<$ \$100/month
<b>E. Subtotal of Expenses</b>		
<b>F. Unplanned Expenses (Fudge Factor)</b>		Fudge Factor % 10%
<b>G. Total Cash Expenses</b>		Line E + Line F
<b>Monthly Surplus</b>		Line C - Line D - Line G



**“If you are traveling  
with others....”**



# Where Does/Should Your Income Go?



“10% for savings? Good one, Hobbes!”



# Budgeting Tips

- Be consistent in your methods each period
- Treat savings & investments as a “fixed expense”
  - Build these into your budget first
  - “Pay Yourself First”
- Don’t forget expenses with non-monthly payments
  - Auto insurance, property taxes, etc.
- Build in a 10-20% “fudge factor”
  - For the unexpected.....

# Track Your Expenses

- Like the variance reports for your business
  - Helps you see if you are on track
- Daily Expense Tracker (email me for a form)
  - “Cardboard for your wallet”





<div><div>Daily Expense Tracker</div><div>Directions: Record <b>EVERYTHING</b> you spend each day for the week, whether by cash, check, debit card, credit card, etc.</div></div>			

Monday

Tuesday

Wednesday

Thursday

Daily Expense Tracker

Directions: Record **EVERYTHING** you spend each day for the week, whether by cash, check, debit card, credit card, etc.

Friday

Saturday

Sunday

Special Expenses

# Track Your Expenses



- Like the variance reports for your business
  - Helps you see if you are on track
- Daily Expense Tracker (email me for a form)
  - “Cardboard for your wallet”
- Track your household expenses for 1 month
- Compare your spending to your budget
  - Where did you screw up? (It’s gonna happen!)
  - Change your budget or your lifestyle

# Liquidity

- Funds to meet your current living needs
  - Your regular monthly expenses
  - Same as for your business!
- Checking accounts
- Al's Rule: Start the month with 1-2 months of living expenses in your checking account
- “What if I have irregular income?”



# Liquidity

- Household Liquidity
  - Shoot for 3-6 months of living expenses in “savings”
    - Savings account, MMA, CDs
    - Conservative MF, cash-value life insurance policy
  - It won't earn much, but:
    - **“In bad times, Cash is King!”**
- Business Liquidity
  - Shoot for 3-6 months of liquidity
  - Working Capital/Expenses > 25%

**Talk with your lender!**



# Recap – Goals, Budgeting, Liquidity

- Helps you plan for the future
- Use your income more efficiently
  - More money left over for other uses
  - Build your emergency savings
- Helps you take advantage of opportunities as they arise!
  - Cash on hand!

# Household Debt Management

- Consumer debt payments < 10% of gross income
  - Auto, education, consumer, credit card debt
- Housing debt payments (PITI) < 30% of gross income
  - Principal & Interest, Property Taxes, HO Insurance
- Total payments < 40% of gross income

**These do NOT include business debt**



# Credit History

- Check yours regularly
  - [AnnualCreditReport.com](http://AnnualCreditReport.com)
  - [CreditKarma.com](http://CreditKarma.com)
- Checking your credit history will NOT hurt your credit score
- ~75% have mistakes
  - ~25% have “potential harmful errors”
- 7-year itch
  - Bad judgement follows you for 7 years



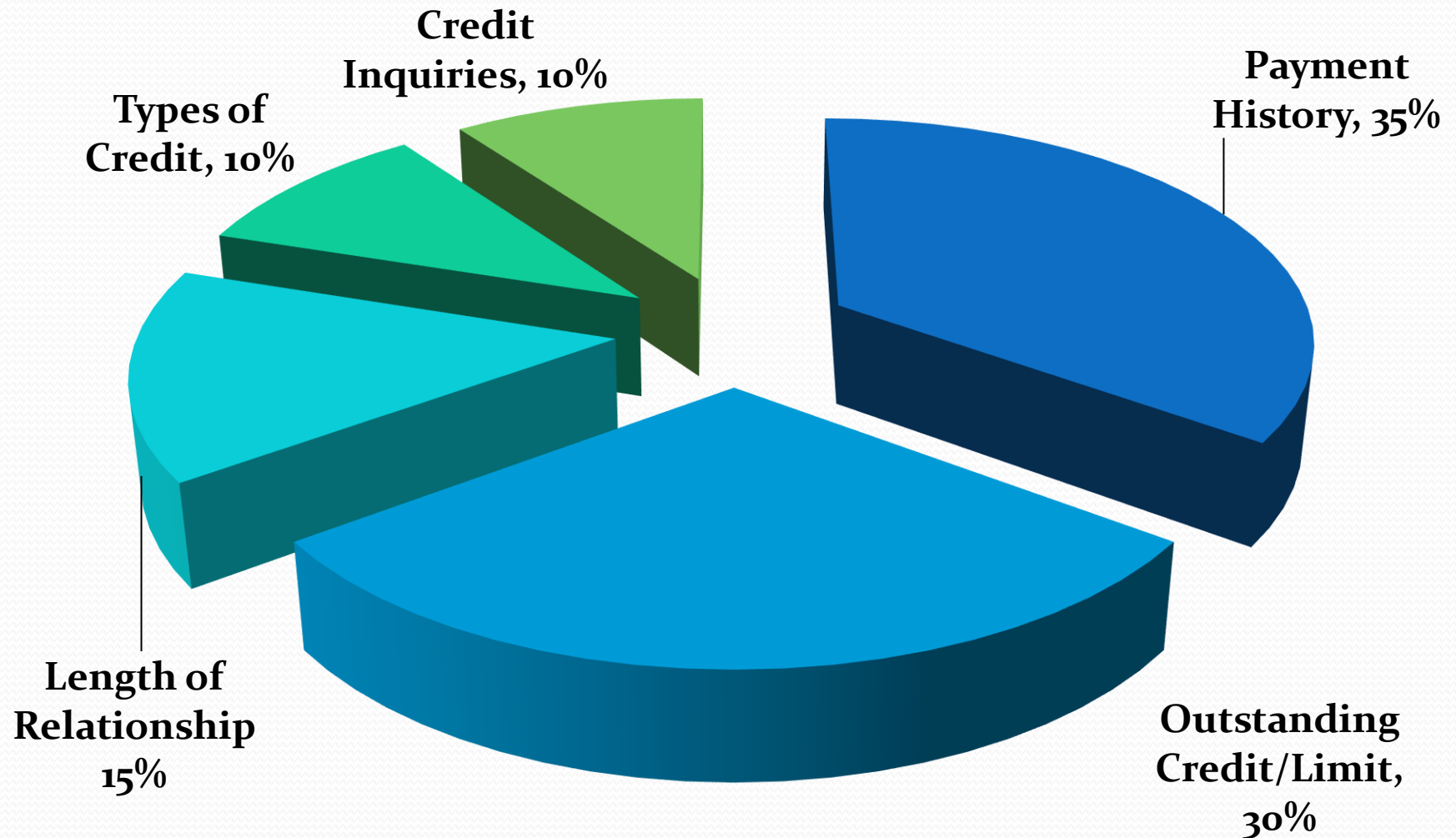


# Credit Score(s) – 20+?

- Typical range of 300-850
- Higher is better!
  - Shoot for over 700
- Benefits of a higher credit score:
  - Quicker, easier loan acceptance
  - Lower interest rates
  - **Lower auto & HO insurance premiums**
- CreditKarma.com



# Credit Score – Main Factors



# Uncle Al's Rules for Credit Cards

- Don't use them unless you can write a check today
- Never make just minimum monthly payments
  - Michael Jordan & Richard Petty Rules
- Try to pay your balance in full every month
- Keep your outstanding balance under 30% of your credit limit
- Don't have more than 3 cards/person



# Protect Your Family

- Insurance can help avoid financial catastrophes
- **Never go without Health Insurance**
  - Shop around, look for group policies
- Disability Insurance provides income when you can't work
  - Nice to have, but can be expensive
- Liability Insurance
  - At least \$2 million of coverage for farm
  - **Don't count on your LLC to protect you**



# Life Insurance

- Life Insurance protects your survivors
  - Final expenses (\$20-25,000)
  - Pay off debts
  - Provide income for survivors for the adjustment period
  - Powerful transition & estate planning tool



**Start the Conversation!**

# Life Insurance

- Who needs life insurance coverage?
  - Main earner(s)
  - Non-earning spouse with children
  - Children?
  - Business partners?
  - Older generation?

**Work with your team of financial professionals!**

- Insurance Agents
- Attorney
- Financial Planner
- Lender

# Income Tax – Soap Box

- Think before you make tax purchases at year-end
- **Need to spend \$5 to save \$1 in income taxes**
  - At 20% MTB
  - Spend \$50,000 to save \$10,000
    - What if you paid the \$10,000 and SAVED the other \$40,000?
      - Or paid down some debts, dare I say vacation....
- **Many businesses go out of business by trying to not pay taxes**



# Income Tax – Soap Box

- Section 179
  - Write a check to **someone else**
    - Borrow additional funds to buy it?
    - Impact on liquidity?
    - Impact on repayment ability?
  - **Buy something that depreciates**
  - **Will that asset make you more profitable?**



# Income Tax – Soap Box

- Retirement Plan
  - Write the check to **yourself**
  - **Invest in something that appreciates**
  - Same or better tax savings!
    - Tax deductible
    - Tax deferral
  - Allows you to retire on your terms
  - Great help for transition of business



# Yeah, I know...

- What about SE taxes?
  - Sect. 179 may be more useful for pass-through entities
- But I'm earning a ~20% return by saving on taxes!
  - Life isn't all about profitability
    - Liquidity, solvency, repayment ability, financial efficiency
    - Impact on household finances & your lifestyle?

# Uncle Al's Plan for Tax Moves

- Maximize your retirement contributions
  - Pay yourself before you pay the IRS
- Pre-payments/purchases of inputs you will use
  - Caution: this will skew your financial ratios
    - Use accrual-adjusted income statements for decision-making!
- Sect. 179 for assets that will improve profitability
  - NOT just to reduce taxes!

# Retirement Planning

- Start NOW!!
- “Wal-Mart greeter syndrome”
- Retirement planning steps
  - When do you want to retire?
  - What do you want to do when you retire?
    - What will this lifestyle cost/year?
  - What sources of income will you have in retirement?
  - How much do you need to invest to reach your dreams?
    - How do you invest those funds



# Retirement Planning

- But Uncle Al, how do I do this higher-level cipherin’?
  - Uncle Al’s handy-dandy retirement planning spreadsheet
    - email me: [DocWhite@vt.edu](mailto:DocWhite@vt.edu)
  - <http://www.bankrate.com/calculators/retirement/retirement-plan-calculator.aspx>
  - <http://money.cnn.com/calculator/retirement/retirement-need/>

# Retirement Planning Worksheet

Developed by Dr. Alex White, Virginia Tech

Years Until Retirement	40	years
Years In Retirement	30	years
Pre-Retirement Nominal Inflation Rate	3.0%	
Pre-Retirement Nominal Rate of Return	7.0%	
Retirement Nominal Inflation Rate	3.0%	
Retirement Nominal Rate of Return	7.0%	
Desired Amount Remaining at Death (Nominal)	\$0	

1. Annual Pre-tax Retirement Living Expenses (in today's dollars) <small>(You'll need roughly 60-80 percent of current income or 80-120 percent of current family living expenses)</small>	\$65,000
2. Expected Annual Social Security Benefits (in today's dollars)	\$0
3. Expected Annual Income From Other Sources (in today's dollars) <small>(From continued employment, lease of assets, pension income, etc.)</small>	\$0
4. Expected Annual Retirement Income Needed From Savings <small>(Line 1 - Line 2 - Line 3)</small>	\$65,000
5. Future Value of Additional Income Needed	\$212,032
6. Amount Needed at Retirement to Generate Additional Income	\$3,863,322
7. Current Value of Savings <small>(This includes all existing retirement savings. You may include up to 1/2 of your equity in your house and/or other business assets if you expect to sell these assets to fund your retirement)</small>	\$0
8. Expected Future Value of Current Savings	\$0
9. Average Annual Contributions to Retirement Investments <small>(This includes annual contributions to ORP, TSP, 401(k), 403(b), 457, IRAs, SEPs, and Keogh retirement plans)</small>	\$0
10. Expected Future Value of Current Annual Contributions	\$0
11. Total Retirement Capital You Need to Accumulate <small>(Line 6 - Line 8 - Line 10)</small>	\$3,863,322
Additional Annual Savings Needed to Reach Your Retirement Goal	\$18,086
Additional Monthly Savings Needed to Reach Your Retirement Goal	\$1,463



# Retirement Planning

- Targets
  - 25-yr old \$3-5 million
  - 35-yr old \$2-4 million
  - 45-yr old \$1-3 million
    - Assumes equivalent of \$50,000/yr lifestyle for 30 years, 3% annual inflation
- “Liquid Equity” at retirement
  - Financial investments & retirement plans
  - Equity you can convert to cash
    - Sale of farm/business interests, house, land, etc.

# Retirement Plans

- Tax benefits
  - All pre-tax contributions are tax deductible\*
  - **Roth contributions are not tax deductible**
  - **Have no impact on your annual income taxes**
- All earnings are tax free while in the account
- All withdrawals taxed as ordinary income
  - **Roth – all withdrawals are tax free**

# Retirement Plans

- SEP-IRA
  - A “pension” for small businesses
  - Invest up to ~20% of business profits, max of \$58,000/year
    - Must use roughly the same percentage for all eligible employees
- SIMPLE-IRA
  - A “401(k)” for small businesses
    - Employer makes contribution of 1-3% of salary for all employees
  - Invest up to \$13,500/year per person (\$3,000 catch-up)
- **All contributions are pre-tax (tax deductible)**

# Retirement Plans

- Traditional IRAs
  - Contribute up to \$6,000/year (\$1,000 catch-up)
  - Tax-deductible contributions\*
- Roth IRAs
  - Contribute up to \$6,000/year (\$1,000 catch-up)
  - After-tax contributions
    - No impact on taxes
  - Tax-free withdrawals at retirement (age 59 ½)
    - 5-yr rule

# Opportunities & Retirement

- Allows you to retire on your terms
  - All-out or phase-out
- Provides living income for retirees
  - Reduces need to sell farm assets
  - Makes farm transition easier for the family
- Provides significant tax advantages

# Another Fun Talk



[illegible]

- # Planning

# Estate Planning

- Power of Attorney (POA)
  - Gives someone powers to act on your behalf
    - You can specify those powers and when the POA is in effect
  - Contingent “attorneys in fact”
  - “The only good POA is a **Durable POA**”
- Advance Medical Directive (AMD)
  - A super-charged living will
  - Specify the level of care you want
  - Specify a “medical power of attorney”

**Start the Conversation!**



# Estate Planning

- Long Term Care (LTC) Insurance
  - Protects your family equity from eldercare expenses
    - Who will/can provide this care?
    - \$70-90,000/year for assisted care
  - In-home or in-facility care
  - When to consider?
    - Mid-40s to mid-50s
  - **Nice way to extend the transition conversation!**

**Start the Conversation!**

# Your To-Do List

- Start talking about your goals
- Build a budget & track your expenses
- Beef up your savings
- Check your credit history
- Put together a household insurance plan
  - Health, Disability, Life, Long Term Care
- Start investing for retirement NOW
- Start the estate planning conversation
- Don't put these things off – get started!

