



# YPCI Life Skills: Financial Planning

## Education and Tools to Do It Yourself

Valeo Financial Advisors, LLC  
9450 N. Meridian Street, Suite 300  
Indianapolis, IN 46260  
P: 317.218.6000  
[www.valeofinancial.com](http://www.valeofinancial.com)

Katie J. Smith, CFP®  
[kjsmith@valeofinancial.com](mailto:kjsmith@valeofinancial.com)

Lauren A. Brown, CFP®, CDFATM  
[labrown@valeofinancial.com](mailto:labrown@valeofinancial.com)

### Our Mission

Valeo's **mission** is to improve how clients consume and advisors deliver financial advice. Our service is a continuous process of thoughtfully identifying and implementing **solutions** to ensure all aspects (insurance, cash flow/taxes, investments and estate) of your financial life are integrated with one another, to lower costs (interest paid, taxes and fees), to achieve better risk-adjusted investment results, to become better organized and repeating this process so you have peace of mind to know it is going to stay that way.

### Connect with Valeo



#### Valeo Blog

Access our blog on relevant investment and financial planning topics at [www.valeofinancial.com/blog](http://www.valeofinancial.com/blog)



#### Twitter - @valeofinancial

We regularly post articles on current financial, economic, and investment news. Follow us at [www.twitter.com/valeofinancial](http://www.twitter.com/valeofinancial)



#### Week in Review

Our weekly e-mail summarizes the key weekly news from the industry. Sign up at [www.valeofinancial.com/blog](http://www.valeofinancial.com/blog)

### Comprehensive Expertise

True financial planning is more than just investment advice. Advice related to taxes, insurance and estate planning strategies can deliver significant value.

#### Advice not Products

Advice from someone being compensated for the product they are recommending is simply not objective. We NEVER receive any compensation from anyone other than directly from our clients.

#### Accessibility

We believe the most common reason a client-advisor relationship fails is a lack of proactive communication. We embrace this industry flaw by limiting the number of clients each advisor is allowed to work with to ensure this does not happen.

#### Reasonable Fees

Transparent and easily found on our client agreements, invoices, website and other forms of company communications. Reasonable for the work we do and not simply what the market will bear.

#### Growing with Our Clients and Advisors

While the majority of our clients' situations merit regular, recurring meetings, we can provide substantial value for clients who are in the early phases of growing their net worth.

#### Giving Back and Paying Forward

We are fortunate to earn a living doing what we love and must give back to the communities that allow us to do so.

# Topics

- Protecting against what can go wrong
  - Life insurance
  - Disability insurance
  - Estate planning
- Optimizing cash flow
  - Building cash and credit
  - Managing mortgage debt
  - Tax savings opportunities
- Investing for the future
  - Investing basics
  - Retirement plans
- Financial professional fee structures

# Life Insurance

## Key Points:

- 3 reasons people need life insurance:
  - Survivor security (income replacement)
  - Build wealth for the next generation
  - Cover estate taxes
- Employer may offer and pay for basic group coverage for employees often in the amount of a multiple of salary (e.g. 2x salary)
- If your coverage need exceeds group coverage, consider term insurance
- It pays to shop around

## Action Items:

Visit [vfa.cc/ypci](http://vfa.cc/ypci) for links to:

- Insurance needs calculator
- Term insurance quote tool

# Disability Insurance

## Key Points:

- Protects your most valuable asset – your ability to earn income
- Long-term group disability through employer
  - Benefit typically 50-70% of salary
  - Often capped at \$10-12K per month
  - Employer-paid premiums = taxable benefit
  - Employee-paid premiums = tax-free benefits
- If no group coverage or need for additional coverage, consider individual policy
- Definition is key (own vs any occupation)

## Action Item:

Understand your monthly long-term benefit

- Tax-free vs taxable benefit?
- Monthly cap?
- Own vs any occupation?

# Estate Planning

## Key Points:

- Basic estate documents:
  - Last Will & Testament (potentially with Testamentary Trust)
  - Healthcare Representative
  - General Durable Power of Attorney
  - Living Will
- Appropriate asset titling
- Beneficiary designations
  - 401(k) plans, IRAs & pensions
  - Life insurance & annuities
- Consolidated list of accounts & assets
- Do not just use any attorney - use an estate planning attorney

## Action Item:

- Update your estate plan & prepare list of accounts/assets
- Visit [vfa.cc/ypci](http://vfa.cc/ypci) for a link to find a local estate planning attorney

# Building Cash and Credit

## Key Points:

- Build credit via credit cards, but pay off monthly
- Build an emergency fund – typically 3-6 months worth of living expenses
- Consider high yield savings account for excess cash to earn higher interest rate

## Action Item:

Visit [vfa.cc/ypci](https://vfa.cc/ypci) for links to:

- Nerd Wallet to compare credit cards
- Ally Bank for high yield savings account details



# Managing Mortgage Debt

## Key Points:

- It pays to shop around
- Fixed rate vs. Adjustable Rate (ARM)
- Avoid mortgage insurance (PMI)
- Home Equity Line of Credit (HELOC) as liquidity mechanism
- Indiana homestead deduction - property deduction for primary residence that reduces property tax by 50%+

## Action Item:

- Visit [vfa.cc/ypci](http://vfa.cc/ypci) for link to compare your current mortgage rate to national average
- Confirm homestead deduction filed with your county assessor



# Tax Savings – Indiana 529 Plan

## Key Points:

- Contributed funds grow tax deferred and come out tax free if used for qualifying higher education expenses
- \$5,000 contribution = \$1,000 state tax credit (20% to maximum of \$1,000)
- Beneficiary is transferable within family

## Action Items:

- Visit [vfa.cc/ypci](http://vfa.cc/ypci) for link to IN 529 direct plan website
- Make sure CPA includes your 529 contributions on your tax return

# Tax Savings – Health Savings Account (HSA)

## Key Points:

- Applicable if enrolled in a high-deductible HSA-eligible health insurance plan
- Above-the-line deduction on your tax return
- Grows tax-deferred and comes out tax-free for qualified health expenses
- 2017 limits (employer + employee):
  - Individual = \$3,400
  - Family = \$6,750
- Unused balance after age 55 is treated like an IRA

## Action Items:

- Maximize contribution to extent cash flow allows
- Visit [vfa.cc/ypci](http://vfa.cc/ypci) for link to HSA Bank website

# Tax Savings – Charitable Giving

## Key Points:

- Gift appreciated stock or mutual funds:
  - Avoid capital gains tax
  - Charity pays no capital gains tax
  - Invest cash to step up cost basis
  - Easily facilitated via charitable giving account
- School Scholarship Credit (SGO):
  - 50% Indiana state tax credit
  - 39.6% Federal tax deduction
  - Can gift appreciated stock
  - Brebeuf, Cathedral, Guerin, etc.

## Action Item:

Visit [vfa.cc/ypci](http://vfa.cc/ypci) for links to:

- Fidelity Charitable Giving Account website
- See if your school qualifies for SGO credit

# Investing Basics

## Key Points:

- Time value of money – starting early makes all the difference
- Dollar cost averaging – investing on a regular schedule regardless of share price
- Target Date Retirement Funds – actively manage your allocation based on proximity to retirement
- Minimize fees and taxes via indexing:
  - SPDR S&P 500 Index ETF (SPY) - 0.09% annual expense ratio
  - Average Large Cap mutual fund - 1.09% average annual expense ratio

## Action Item:

- Start early and keep it simple with Target Date Retirement Funds and index funds

# Retirement Plans

## Key Points:

- Employer-Sponsored Plans – e.g. 401(k)
  - Pre-tax traditional or after-tax Roth option
  - 2017 limit: \$18,000
- Roth IRA
  - After-tax contributions, tax-free growth, tax-free distributions, no required minimum distributions
  - Direct contributions limited by income
  - Indirect contributions at any income
  - 2017 limit: \$5,500/person
  - Available for non-income spouse and for children with earned income

## Action Item:

- At a minimum, maximize your employer match (free money)
- Aim to contribute to the limits
- Consider establishing a Roth IRA through a discount brokerage firm (e.g. Fidelity, Schwab, Vanguard)

# Financial Professional Fee Structures

## Key Points:

- Transaction/commission-based
  - Advisor charges a commission when investments are bought or sold
- Fee-based
  - Combination of fees and commissions
  - Advisor gets paid a percentage of assets under management (percentage can depend on the type of asset being managed – for example, a 1% equity portfolio fee and 0.6% bond portfolio fee)
  - Advisor can also be compensated by commissions paid from financial or insurance products bought through them
- Fee-only
  - Advisor's ONLY source of income is a fee collected directly from client (i.e. Advisor cannot collect commissions)
  - Can be percentage of assets under management, percentage of net worth, a flat or hourly rate, or a retainer

## Action Item:

Ask your Advisor:

- How are you compensated?
- What are the fees to purchase, maintain, and sell an investment?
- Are you held to a Fiduciary standard?
- What are the potential conflicts of interest?

# Questions?