

W O R K B O O K

Preview
The Complete
**Financial Management
Workshop®**



Mark Reynolds, CFP®
Mark Reynolds and Associates

123 Main Street, Suite 100
San Diego, CA 92128
Phone: 800-123-4567
Fax: 800-123-4567
www.markreynolds.com



**REYNOLDS
& Associates**

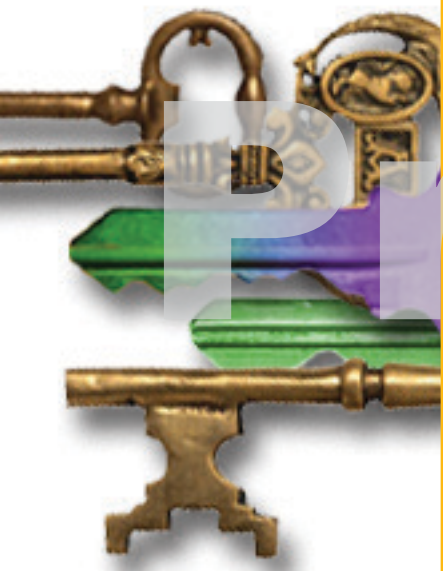
Contents

Introduction: Six Keys to Financial Success	9
Your Lifetime Earnings	10
Seven Roadblocks to Financial Success	11
Self-Analysis Quiz	16
Risk Management	17
Medical Insurance	19
Types of Medical Coverage	19
Health Savings Account	20
What Does Medicare Cover?	21
Medicare Supplement Insurance	22
Long-Term Care	23
Long-Term-Care Considerations	24
Disability Income Insurance	26
Property and Casualty Insurance	28
Homeowners Insurance	28
Automobile Insurance	29
Umbrella Liability Insurance	30
Life Insurance	31
How Much Life Insurance Do You Need Worksheet	31
Types of Life Insurance	32
Checking Out Your Insurance Company	35
Action List	36
Cash Management	37
Assess Your Current Situation	39
Cash-Flow Worksheet	40
Month-to-Month Cash Management	42
Build a Liquidity Fund	42
Traditional Savings Vehicles	43
Pay Down Your Credit Cards	44
Tips and Strategies	45
Mortgage Refinancing Worksheet	46
Auto Buy/Lease Worksheet	47
Four Ways to Increase Your Savings	48
Action List	49
Investment Concepts	51
Investment Philosophies: What the Pros Do	52
Guidelines for Successful Investing	54
Investment Strategies	56
Asset Allocation	56
Dollar-Cost Averaging	59
Investment Options	60
Stocks	60
Price/Earnings Ratio	61



Contents

Tracking the Overall Direction of the Market	62
Bonds	63
Bonds and Interest Rate Risk	64
Types of Bonds	65
Mutual Funds	66
Types of Mutual Funds	67
Mutual Fund Checklist	68
Exchange-Traded Funds	69
Explosive Growth of ETFs	70
ETF Characteristics	70
College Funding	71
College Funding Calculator	71
College Funding Options	72
Action List	74
Tax Management	75
How Taxes Work	77
Federal Income Tax Brackets	78
Phaseout Limits Affecting High-Income Taxpayers	79
Alternative Minimum Tax	79
Taxes on Capital Gains and Dividends	80
Tax-Favored Investing	81
Tax-Exempt Investments	81
Taxable Equivalent Yield	82
Tax-Deferred Options	83
Tax-Advantaged Investing	84
Tax-Saving Opportunities	85
Home-Equity Loans	85
Tax-Free Gain on Home	85
Home-Based Business	86
Educational Credits and Deductions	86
Like-Kind Exchanges	87
Upgrading Your Life Insurance	87
Helpful Tax-Reduction Strategies	88
Handling an Audit	89
Taxpayer's Bill of Rights	90
Action List	91
Retirement Planning	93
Calculating the Cost	94
The Cost of Procrastination	96
Sources of Income	97
Retirement Income Factor	97
Social Security Benefits	97
How Filing Early or Later Affects Benefits	98



Contents

Taxability of Social Security Benefits	98
Your Share	99
Employer-Sponsored Retirement Plans	99
Personal Retirement Plans	102
Annuity Contracts	102
Self-Employed Plans	103
Individual Retirement Accounts	104
Roth IRA or Traditional IRA Worksheet	106
Other Savings and Investments	108
Distributions	110
Taking Payment as an Annuity	110
Taking Distribution as a Lump Sum	111
Tax Alternatives	112
Indirect Rollover	113
Trustee-to-Trustee Transfer	113
Roth IRA Conversion	114
Activities Preference Worksheet	115
Action List	116
Estate Conservation	117
Estate Conservation Challenges	120
Probate	120
Estate Taxes	121
Federal Estate Tax Exemption	122
Estimating Your Estate Taxes	123
Unlimited Marital Deduction	123
Estate Distribution Techniques	124
Intestacy	124
Wills	125
Jointly Held Property	125
Contracts	125
Trusts	126
Charitable Partnership	130
A Comparison of Charitable Strategies	131
Charitable Trusts	132
Other Considerations	134
Annual Gift Tax Exclusion	134
Step-Up in Basis vs. Carryover Basis	134
Long-Term Care	135
The Importance of Contingency Planning	135
Where Are Your Important Documents?	136
Action List	140
Glossary	141
Resources	153



Risk Management

RISK MANAGEMENT

The section on insurance is for informational purposes only. Please consult the appropriate professional for specific questions.



Many insurance practices began with the wealthy patrons of Edward Lloyd's coffee house in London in the late 1600s.

This group eventually became Lloyd's of London.

*Source:
Lloyd's of London*

18

The first step in any sound financial program is to reduce exposure to financial risk — even before implementing an investment strategy.

A well-designed risk management program may help protect you in the event of a disaster without burdening you with payments for protection that you may not need.

Prudent consumers are willing to cover the cost of affordable financial injuries themselves to keep their premiums low. They know that insurance is not meant to insulate them from the cost of every head cold or dented fender. The idea is protection from catastrophe.

Strength in Numbers: For hundreds of years, people have been joining forces against all kinds of calamities — including financial troubles. That's the idea behind insurance: If enough people can pool their money and form a large enough fund, then together they can handle practically any financial disaster. Your motivation for participating is your own eligibility to draw from it if the disaster happens to be yours.

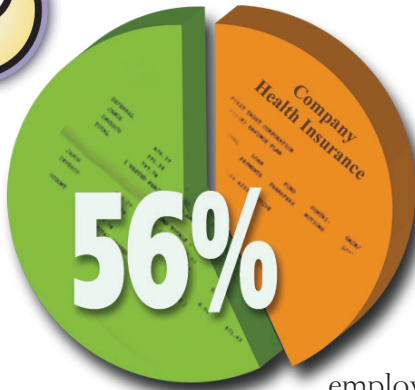
Six Areas of Coverage

In order to be adequately insured, you should consider these six major areas of protection:



- **Medical**
- **Long-term care**
- **Disability income**
- **Property and casualty**
- **Liability**
- **Life**

Medical Insurance



Medical coverage goes right to the heart of why people buy insurance in the first place: as a way to help protect themselves against loss.

The leading source of health insurance in this country is employer-sponsored insurance. In fact, 56 percent of the non-elderly population are insured through their employers or their spouses' employers.¹

Types of Medical Coverage

Indemnity plans, or fee-for-service plans, normally cover hospitalization, outpatient care, and physician services in or out of the hospital. You select the service provider (physician) for consultation or treatment. You are billed for the service and are reimbursed by the insurance company, or you can "assign" direct payment to the provider from the insurance company. Indemnity plans typically require the payment of premiums, deductibles, and coinsurance. Limits on certain coverage or exclusions may apply. The three types of indemnity plans are basic, major medical, and comprehensive.

Health maintenance organizations, or HMOs, operate as prepaid health-care plans. You pay a monthly premium in addition to a small copayment for a visit to a physician, who may be on staff or contracted by the HMO. These contracts with doctors as well as hospitals typically result in lower costs than indemnity plans. HMOs are referred to as "managed care" because your health-care needs are "managed" by your primary-care physician.

Preferred provider organizations, or PPOs, may be established by an employer, an insurance company, or a health-care organization. PPOs are similar to HMOs in that contracted physicians and hospitals (preferred providers) provide services at a reduced cost than indemnity plans. You have the option of using the contracted physician or a physician of your choice, but deductibles and copayments are usually lower as an incentive for you to utilize the lower-cost provider.

RISK MANAGEMENT

Source:
1 Employer Health Benefits 2016 Annual Survey, The Kaiser Family Foundation and Health Research and Educational Trust

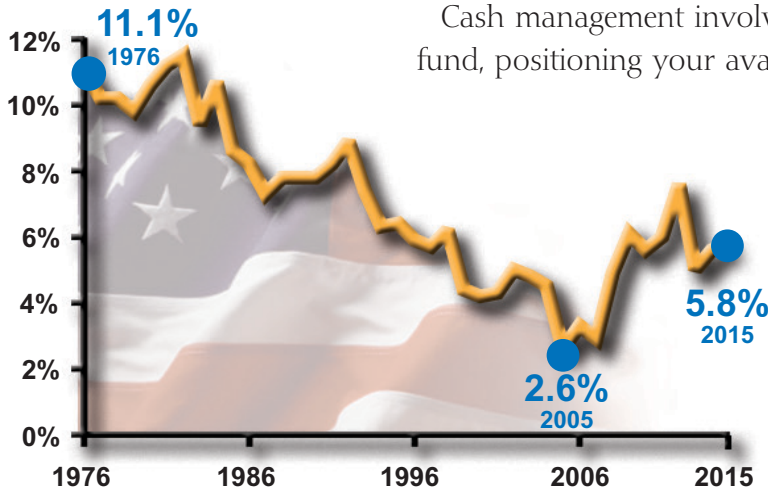
Individual Health-Care Mandate

Under current law, as a result of the Patient Protection and Affordable Care Act, most individuals are required to have "minimum essential health coverage" or pay a penalty.



Cash Management

CASH MANAGEMENT



Cash management involves managing cash flow, creating a liquidity fund, positioning your available cash, and building your net worth.

American Savings Patterns

Americans have been saving less of their disposable incomes, but an upward trend started after December 2005. During this 40-year period, the personal savings rate ranged from a high of 11.1 percent in 1976 to a low of 2.6 percent in 2005. The savings rate reached 5.8 percent in 2015.

Source:
Bureau of Economic
Analysis, 2016,
for the period
January 1, 1976, to
December 31, 2015

Inflation and Taxes Can Take a Big Bite



If you're not careful, inflation and taxes could take a big bite out of your savings. This worksheet will help you calculate how these factors will affect your investments.

This hypothetical example is not indicative of the performance of any specific investment product or class of investments.

	Example	You
1. Initial investment	\$10,000	\$ _____
2. Interest rate	4%	_____ %
3. Amount earned (line 1 x line 2)	\$400	\$ _____
4. Federal income tax bracket	28%	_____ %
5. After-tax return (line 3 - [line 3 x line 4])	\$288	\$ _____
6. Net value of account after taxes (line 1 + line 5)	\$10,288	\$ _____
7. Inflation rate	3%	_____ %
8. Value of the account after inflation and taxes (line 6 ÷ [1.00 + line 7])	\$9,988	\$ _____
9. Real rate of return ([line 8 - line 1] ÷ line 1)	-0.12%	_____ %

Assess Your Current Situation

CASH MANAGEMENT

The first step in cash management is to assess your current situation.



Effective cash management is really just getting a realistic view of how much of your money is available to spend.

Without adequate information, you could get yourself into trouble.

Be careful when you use tomorrow's dollars to pay for today's needs.

To assess your current situation, start by making a list of your monthly income. Continue until you've determined exactly how much income is available to you on a monthly basis.

List all your fixed expenses. These are expenses that are the same every month — like your mortgage, rent, and car payments. List every bill you can think of that is the same amount every month of the year.

Next, list the monthly averages for any nonfixed expenses. Items like the electric bill may vary widely from season to season. Figure the monthly average and list that number.

Nonmonthly periodic expenses need to be calculated to fit a monthly time frame. If your auto insurance is \$800 every six months, that works out to be \$133 per month.

And be honest with yourself. There's no use in trying to manipulate these numbers. They're not for anyone else. They're for your own personal use.

Once you've listed everything, compare income and expenses. There are several items to evaluate. Determine which expenses are fixed and which are flexible. You may be able to reduce the ones over which you have control. Shortfalls can create havoc with anyone's financial situation. Surpluses, on the other hand, are wonderful — if you invest or save.

The front of each U.S. currency note bears the portrait of a famous American:

George Washington on the \$1 bill

Thomas Jefferson on the \$2 bill

Abraham Lincoln on the \$5 bill

Alexander Hamilton on the \$10 bill

Andrew Jackson on the \$20 bill

Ulysses S. Grant on the \$50 bill

Benjamin Franklin on the \$100 bill



Investment Options

INVESTMENT CONCEPTS

Bonds and Interest Rate Risk

Because bonds are essentially fixed-interest loans, the market value of a bond is at risk when interest rates fluctuate. Bond prices generally fall when interest rates rise.

To earn \$1,000 annually from bonds paying 6%

You need to invest **\$16,666**

To earn \$1,000 annually from bonds paying 8%

You need to invest **\$12,500**

This interest rate risk is higher when bond maturities lengthen.

Value of a Bond When Interest Rates Rise 1%

Bond Maturity	Face Value	New Market Value
2 years	\$1,000	\$982
5 years	\$1,000	\$959
20 years	\$1,000	\$894

Value of a Bond When Interest Rates Fall 1%

Bond Maturity	Face Value	New Market Value
2 years	\$1,000	\$1,019
5 years	\$1,000	\$1,043
20 years	\$1,000	\$1,125



A bond's interest rate is often referred to as its "coupon rate."

Assumes \$1,000 bonds paying 6% interest.

These results will occur only if you decide to sell your bond holdings before they mature. If you hold the bonds to maturity, you'll receive the interest payments due (barring default, of course) and then receive your full principal.

These are hypothetical examples used for illustrative purposes only and do not represent any specific investment. Actual results will vary.

Investment Options

Types of Bonds

There are three basic types of bonds:

- **U.S. government**
- **Municipal**
- **Corporate**



Treasury bonds are long-term debt obligations of the U.S. government with maturities ranging from 10 to 30 years. They are sold in denominations of \$1,000 and up and offer a fixed rate of return that is paid semi-annually. The interest earned on Treasury bonds is exempt from state and local taxes. Treasury bonds are guaranteed by the U.S. government as to the timely payment of principal and interest.

A municipal bond is a debt obligation issued by a state, county, parish, or local government or some other municipal authority, such as a publicly owned water district. Municipal bonds are typically issued to obtain funds to build or repair public facilities such as streets, bridges, waterworks, and schools. Interest on municipal bonds is generally exempt from federal income tax. If you purchase municipal bonds of the state or city in which you live, the interest may be exempt from state or local income taxes. Some municipal bond interest could be subject to the federal alternative minimum tax. If you sell a municipal bond for a profit, you could incur capital gains taxes.

Corporate bonds are the major source of corporate borrowing. Debenture or unsecured bonds are backed by the general credit of the corporation. Asset-backed or secured bonds are backed by specific corporate assets, such as property or equipment. These bonds generally have a higher yield than government bonds, but the income they produce is fully taxable.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.

How Taxes Work

TAX MANAGEMENT

Americans spent an estimated 1.92 billion hours to prepare and submit their 1040 federal income tax forms in 2015.

Sources:

1 National Taxpayers Union, 2016

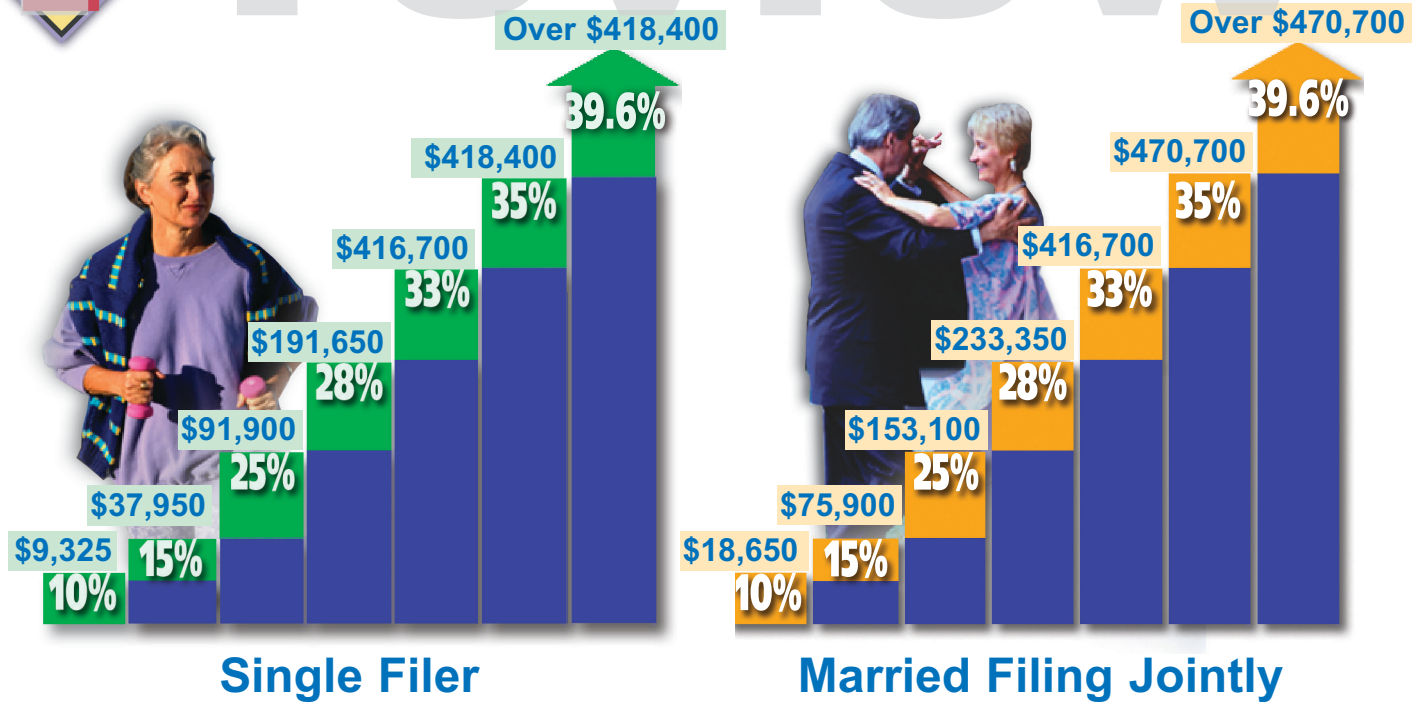
2 Tax Foundation, 2015
(most current data available)

Who Is Paying All Those Taxes?

It might surprise you to learn that the wealthiest 25 percent of taxpayers pay 86 percent of federal income taxes. And here's the real eye-opener for most people: The wealthiest 25 percent of taxpayers are households with \$74,955 or more in adjusted gross income (AGI).²



Federal Income Tax Brackets



How Taxes Work

TAX MANAGEMENT

Phaseout Limits Affecting High-Income Taxpayers

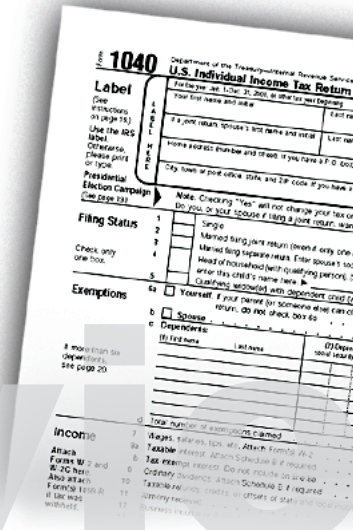
High-income taxpayers are subject to phaseout limits that could affect their personal exemptions and itemized deductions.

Personal exemption phaseout

- Subtract 2% of personal exemption for every \$2,500 of AGI over:
 - \$261,500 (single filers)
 - \$313,800 (married joint filers)
 - \$156,900 (married filing separately)
 - \$287,650 (heads of household)

Itemized deduction phaseout

- Reduce itemized deductions by 3% of the amount that exceeds:
 - \$261,500 (single filers)
 - \$313,800 (married joint filers)
 - \$156,900 (married filing separately)
 - \$287,650 (heads of household)



These dollar limitations are for the 2017 tax year and are adjusted annually for inflation.



Alternative Minimum Tax

The alternative minimum tax (AMT) was instituted in an attempt to curtail the effect of tax advantages that enabled some wealthy taxpayers to pay little or no income taxes. If you use certain strategies to lower your income tax liability, the AMT kicks in to force you to pay a set income tax.

Taxpayers are given an AMT exemption. The American Taxpayer Relief Act of 2012 replaced annual exemption “patches” with permanent exemption levels that is indexed annually for inflation.

The AMT can be somewhat complicated. If you’re affected, you have to compute your taxes twice — using the regular tax system and then using the AMT formula. You would pay any AMT obligation in addition to your regular tax liability. If you think you may be at risk of triggering the AMT, you may want to consult a tax professional.

AMT Exemption Levels

2017 AMT exemption:

- \$54,300 for single filers and heads of household
- \$84,500 for married joint filers
- \$42,250 for married filing separately

2016 AMT exemption:

- \$53,900 for single filers and heads of household
- \$83,800 for married joint filers
- \$41,900 for married filing separately

Preview



broker-dealer disclosure