EVERGREEN™
WEALTH SOLUTIONS
PLAN. GROW. PROSPER.™

Lifecycle Planning for a Solid Risk Management Foundation

Whether you are just starting your career, in your peak earning years, or enjoying retirement, your risk protection needs may change over time. Lifecycle planning helps identify risk areas that are common to particular stages of life. These tools can help individuals and families examine how they are going to manage risk and make future plans.

Listen to our
Risk Management Podcast

Scan code on your phone or visit egwealth.com/rp to listen.

Starting out Stage ...

Between the ages of 25 and 35, many people are just starting out in life — getting married, establishing families, and building careers. During these early years, we identify the building blocks that provide a solid foundation for your financial future.

The building blocks include:

Implementing a Budget

Budgeting is one of the most important financial habits you can adopt. Between helping you achieve your financial goals, keeping you from getting financially overwhelmed, and even helping you avoid or get out of debt, there are so many reasons to live on a budget. The real question is, why wouldn’t you? Check out our *10 Reasons for Using Cash Analysis in Your Budgeting* whitepaper.

Building Emergency Reserves

The amount of money required to pay six months of your household expenses.

Insurance

Insurance allows you to transfer the risk for unforeseen tragedies such as illness, injury, permanent disability, and even death. Unforeseen tragedy can leave you and your family facing tremendous emotional stress and grief. With insurance in place, your financial stress will be reduced, and you can focus on recovery and rebuilding your lives. Insurance to purchase though your employer or personally includes: health, life, disability and property, and casualty.

Retirement Savings

The power of time and compounding interest/returns is the way to achieve financial independence. Starting early will give you more flexibility in determining the age you'll retire and your retirement lifestyle. The three types of accounts to build for retirement include:

- Tax-deferred — Employer Sponsored Retirement plans (401k, 403B, Simple IRA and more). IRAs (Individual Retirement Accounts) are savings without taxes until you withdraw money during your retirement. Withdrawals prior to 59½ are subject to a 10% penalty imposed by the IRS.
- Tax-Free — Roth IRAs and 401k Roth IRAs — contributions are made after taxes but grow tax-free and can be withdrawn after 59½ tax-free.
- Personally owned investment accounts that are available immediately and taxed annually.

College Savings

Cost for college tends to rise 6% annually. A 529 plan is a preferred savings vehicle that allows funds to grow tax-deferred and be distributed tax-free for eligible college expenses. Every state is unique in the benefits that its 529 plan provides. Savingforcollege.com is a great resource to educate you on the benefits of 529 plans within each state.

Estate Planning

Will or Trust

A will or trust may sound complicated or expensive — something that only rich people have, but a will or trust should be one of the main components of every estate plan even if you don't have substantial assets. Wills ensure property is distributed according to an individual's wishes (drafted according to state laws). Some trusts help limit estate taxes or legal challenges. However, simply having a will or trust isn't enough.

Durable Power of Attorney

It's important to draft a durable power of attorney (POA), so an agent or a person you assign will act on your behalf when you are unable to do so yourself. Absent a power of attorney, a court may be left to decide what happens to your assets if you are found to be mentally incompetent, and the court's decision may not be what you wanted.

Beneficiary Designations

As noted earlier, a number of your possessions can pass to your heirs without being dictated in your will (e.g., 401(k) plan assets). This is why it is important to maintain a beneficiary — and a contingent beneficiary — on these accounts. Insurance plans should contain a beneficiary and a contingent beneficiary as well because they might also pass outside of your will. Passing outside of the will may save up to 4% of the value of the asset being transferred to your heirs.

Letter of Intent

A letter of intent is simply a document left to your executor or a beneficiary. The purpose is to define what you want done with a particular asset after your death or incapacitation. Some letters of intent also provide funeral details or other special requests. While such a document may not be valid in the eyes of the law, it helps to inform a probate judge of your intentions and may help in the distribution of your assets if the will is deemed invalid for some reason.

Healthcare Power of Attorney

A healthcare power of attorney (HCPA) designates another individual (typically a spouse or family member) to make important healthcare decisions on your behalf in the event of incapacity.

If you are considering executing such a document, you should pick someone you trust, who shares your views, and who would likely recommend a course of action you would agree with. After all, this person could literally have your life in their hands.

Finally, a backup agent should also be identified, in case your initial pick is unavailable or unable to act at the time needed.

Guardianship Designations

While many wills or trusts incorporate this clause, some don't. If you have minor children or are considering having kids, picking a guardian is incredibly important and sometimes overlooked. Make sure the individual or couple you choose shares your views, is financially sound, and is genuinely willing to raise children. As with all designations, a backup or contingent guardian should be named as well.

Absent these designations, a court could rule that your children live with a family member you wouldn't have selected. And in extreme cases, the court could mandate that your children become wards of the state.

The Bottom Line

There is more to estate planning than deciding how to divvy up your assets when you die. It's also about making certain your family members and other beneficiaries are provided for and have access to your assets upon your temporary or permanent incapacity.

Create a Personal Net Worth Statement

Net worth is the most important measurement of your overall financial health. It takes a big picture approach and looks at everything. Looking at assets, liabilities, and liquid net worth puts your current situation into perspective and allows you to monitor your success year over year. Be sure to check out our *Top 9 Reasons to Know Your Net Worth* whitepaper.

Peak Earning Years Stage

Between the ages of 35 and 60, life tends to be very busy for families, and personal planning tends to be put on the back burner. However, taking time each year to review existing planning and risk management is a good practice. At this stage, many changes have occurred within the family, and implementing new risk management strategies is probably needed. Reviewing retirement goals and college planning for children are important as well.

Insurance

We recommend reviewing all of your insurance policies annually. People typically purchase life insurance but rarely review their policies until they receive a notice of premium increases or of a policy lapse. Individuals owning term life insurance policies may want to convert to permanent insurance.

We also recommend that you have an umbrella insurance policy to provide more liability protection for all of your assets.

Retirement Goals

Meeting with your financial advisor is critical to ensure that your current savings and contributions are on track to achieve your retirement goals. This can be accomplished by running a hypothetical cash flow analysis, which will allow you to understand if your retirement investments will provide the income needed to pay for your expenses (adjusted for inflation in retirement).

College Savings

If you have kids and have not started saving for college, now may be the time. There are many college calculators available online, or meet with your financial advisor for discussion and analysis.

Estate Planning

Estate planning is another one of those tasks, that, once completed, is forgotten and rarely reviewed until a triggering event or life stage occurs. We recommend reviewing your estate plan every five years or as needed when life events occur: more children, divorce, untimely death of a family member, when a POA or guardianship is needed, and when state or federal estate tax laws change. Providing your attorney with your updated personal net worth statement and umbrella policy and life insurance policy statements at the review is a good practice.

Beneficiary Review

It is important to review all beneficiaries on your retirement plans, estate plans, insurance policies, and any accounts that offer a "TOD" (transfer on death) option.

Pre-Retiree Stage

As retirement approaches, our risk profile changes. We may become empty nesters or start incurring college expenses. Our assets likely have appreciated, and our risk management needs are changing. These tend to be bittersweet moments in our lives as we see the retirement stage drawing nearer.

Insurance

Now that your assets have grown, what is the proper amount of insurance needed to protect them from creditors and provide financial security for your loved ones?

As we have stated throughout this whitepaper, during all life stages, you should review your insurance needs annually. But now is a time when you must examine potential new risks to your assets such as future nursing home costs, which have been rising 6% annually. Having a loved one enter a nursing home is challenging emotionally, but you can minimize the financial challenges with proper planning. There are three ways to pay for nursing home care: with assets, insurance, or both.

Buying long-term care insurance with the proper inflation rider and length of coverage is one method, but this can be pricey depending on the individual's age and health. Your assets have grown, so do you need as much life insurance? Can life insurance replace assets to pay for nursing home care? Or should you use a combination of assets and insurance to meet these expenses? You can review all of these questions with your financial advisor.

Retirement Income Cash Flow Analysis

Meet with your financial advisor to develop a new — or review an existing — retirement cash flow and expense analysis. This analysis is vital for understanding all of your income sources for retirement and their tax efficiency and for estate planning as well.

Social Security

Social Security income benefits are important to understand and should be reviewed as part of your cash flow analysis with your advisor. Social Security income is available to individuals as early as age 62, but when you should begin receiving it requires consideration. Go to www.ssa.gov to register and receive your current Social Security income benefit statement.

Medicare

Healthcare costs for individuals and families tend to increase with age. In fact, the current health cost per capita lifetime expenditure is $316,600 — a third higher for females ($361,200) versus males ($268,700). Two-fifths of this difference owes to women's longer life expectancy. Nearly one-third of lifetime expenditures are incurred during middle age, and nearly half during the senior years. Understanding the nuances of Medicare is a very important risk management task. Also, signing up for Social Security income benefits and signing up for Medicare are two different things that involve two different agencies. There are certain times of the year when you can sign up for or change Medicare benefits. Go to www.medicare.gov to learn more.

Estate Planning Review

We recommend reviewing your estate plan every five years or as needed when life events occur: more children, divorce, untimely death of a family member, when a POA or guardianship is needed, and when state or federal estate tax laws change. A revocable trust should be considered at this point in your life to potentially reduce probate cost and increase efficiencies in managing your affairs for your loved ones should you become incapacitated or die.

Beneficiary review

Review all beneficiaries on your retirement plans, estate plans, and insurance policies as well as any accounts that offer a TOD (transfer on death) option.

The Retirement Years

If you have prepared and planned all along, this stage should be the easiest stage regarding managing risk. All plans should be in place, and your job now is to monitor plans and make changes as needed. This is time to do and enjoy all the things you planned for, like taking trips and spending time with grandchildren, etc.

Estate planning review

We recommend reviewing your estate plan every five years or as needed when life events occur: more children, divorce, untimely death of a family member, when a POA or guardianship is needed, and when state or federal estate tax laws change.

Beneficiary review

Review all beneficiaries on your retirement plans, estate plans, and insurance policies as well as any accounts that offer a TOD (transfer on death) option.

Insurance

Review annually and update coverage and beneficiaries as needed.

Retirement cash flow and expenses

Meet with your advisor to review at least annually.

Final Thoughts

In life there is no guidebook, but Lifestyle Planning is the next best thing. Adhering to the principals of Lifestyle Planning allows you to be aware of the preventable pitfalls. The result is a greater degree of control and the mitigation of potential risk.

Through Lifestyle Planning, the professionals at Evergreen Wealth Solutions can help you build a solid foundation based on proven fundamentals for a more secure financial future.

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