Finding *FINANCIAL* Freedom

A Step-by-Step Program for Everyone to Repair or Prevent Personal Financial Ruin

Personal Computer & Microsoft Excel® or Free OpenOffice Software Required

$ **Paul D. Kadavy** $

FINDING *Financial* FREEDOM

A Step-by-Step Program for Everyone to Repair or Prevent Personal Financial Ruin

Paul D. Kadavy

Arrow Publications

ARROW PUBLICATIONS
Fountain Hills, Arizona 85268
E-Mail: arrowpublicationsUSA@gmail.com
Web site: www.arrowpublications.net

Manufactured in the United States of America

FINDING *Financial* FREEDOM

CONTENTS

Preface		vii
Chapter 1	About Using the Excel® Templates and About Personal Financial Goal Setting	1
Chapter 2	Using the "Quick Start" Module to View a Slice in Time	6
Chapter 3	Using the "Projections" Module for a Peek into the Future	29
Chapter 4	Interpreting the Plan Data	85
Chapter 5	Recording Actual Results	95
Chapter 6	Personal Financial Planning Tips	99
Glossary		103
Appendix:		107
▪ **Some Key Excel® Functions**		108
▪ **Questions**		111
▪ **Suggested Reading**		112
About The Author		

NOTE REGARDING THE MICROSOFT EXCEL® TEMPLATES DISCUSSED IN THIS E-BOOK

In this e-Book two Excel® file templates are utilized that are the backbone of your use for the ***Finding Financial Freedom*** program. They should be usable in any PC or Mac computer. When you are ready to use these Excel® files, please send an e-mail, if you have not already received the files, addressed to arrowpublicationsUSA@gmail.com requesting the "Finding Financial Freedom Files." We will promptly provide the files to you by return e-mail. If you limit access to approved users of your e-mail account, please be sure you list arrowpublicationsUSA@gmail.com as an approved user so you will receive our files. Your e-mail address will *never* be sold or given to anyone.

If you do not have a computer, many libraries have them available for your use at no charge. Their computers often have Excel® software installed on them which will enable you to run the above-mentioned templates.

If you have a computer but do not have Microsoft Excel®, you may download the Sun Microsystems OpenOffice software for free at www.openoffice.org. This software includes Calc, a spreadsheet program with which you can fully utilize the Excel® file templates.

This e-Book and the Excel® software files that accompany it are a work in progress. The Excel® files integrate the development of a personal cash flow statement and a net worth statement that can be used to build a lifetime personal financial plan. If you find errors or have suggestions for improvement, please notify us via e-mail at arrowpublicationsUSA@gmail.com or send written communication to the post office address provided on the reverse side of the first page of this e-Book.

PREFACE

Perhaps a friend, your parents, or perhaps you, have personally been devastated by the financial crisis and it has given you renewed commitment to plan for and create your own financial future instead of being carried away by increasing debt and living "the good life" without a firm foundation. If so, you are to be commended. But the road to long-term financial freedom requires more than just mental commitment. It requires a commitment of time.

Many people regard personal financial planning with the same dread as they would a visit to the dentist or making out a will or trust with their lawyer to take effect when they die. Advance planning just doesn't seem to be in the DNA of most people. Usually several accidents or even a death have to occur before a new stoplight is placed at an intersection where it was clearly needed. We usually pay a heavy price for these attitudes. Isn't it obvious that we should plan for any disaster before it occurs? Yet it is seldom done. This is your chance to prepare for a financial disaster…whether it has already occurred or is just looming ahead into your long-term future.

If you are not prepared to commit a good many hours of what might seem like drudgery, you are not yet ready. For that reason, we have included a "Quick Start" module that can be used as a faster one-year starter version. It will not provide you with a plan that projects into the future, but only a current look at your financial situation. If your patience level is low, you may wish to start with this module. When you are familiar with it, you can then "graduate" to the development of your lifetime plan. For those who are fully committed and want to be able to look into the future now, the full-blown "Projections" module is recommended.

There is an old saying, the author of which is unknown to me, that goes like this: "If you don't know where you're going, any road will take you there." This saying is worth its weight in gold for just about anything you try to do in life. Your personal lifetime financial plan is one of them. We have recently undergone the most destructive financial crisis in this country since the Great Depression. It has literally destroyed millions of lives financially and will alter the financial decision making of individuals and families for decades to come. Borrowing our way to prosperity was a prescription for disaster that fulfilled the prophecy no one saw coming. Those days are over. In this "new normal" as it is being called, will you take charge and chart your own course in a purposeful way and find your personal road to financial success, or follow the notorious path suggested by Yogi Berra: "When you come to a fork in the road, take it!"? Your answer will likely forever determine whether in this harsh new environment you are able to achieve financial security, wealth, riches…or whatever words you would use to describe the comfort that comes from reaching your financial goals.

Taking the right road seems to be more important, and more difficult, than ever before. This was true even before the financial crisis, and it is even truer now. It goes well beyond the excessive borrowing that brought on the financial firestorm. For decades, financial security at retirement could be compared to a three-legged stool… the legs representing Social Security, a pension and personal investments. Is that stool still standing today?

We continue to hear about the looming insolvency of the Social Security system. In 1940 there were 42 workers to support benefit payments for each retiree. By 1950 it had declined to 16. Today the number is 3.3, and by 2030 projections indicate that there will only be 2.2 workers for every recipient of Social Security. "The entire country is getting older. In thirty years we are going to have 100% more old people and only 18% more young people to pay their benefits," says Lawrence J. Kotlikoff, co-author of *The Coming Generational Storm: What You Need to Know About America's Economic Future (*Interview with Lawrence J. Kotlikoff, CBS TV "Sunday Morning").

In addition to the shear number of people in the baby boom generation, also contributing to the problem is the fact that in 1940 the life expectancy of men was 61.4 years and 65.7 years for women. Today the life expectancy for men is 74.2 years and 79.5 years for women. And, even though we hear the term "Social Security trust fund" from politicians, in reality no such fund exists beyond intergovernmental transfers. The ability of our government to pay for benefits in the future is dependent solely on future revenues from taxes we pay to the government. As Kotlikoff puts it, "A lot of people are going to show up in old age thinking they are going to live pretty well on their Social Security benefits and their Medicare benefits and their Medicaid benefits. But when they see those benefits slashed they are going to go from comfortable to uncomfortable…from out of poverty to potentially in poverty."

Even though the taxes levied against our wages to fund Social Security have increased from 1% of earnings up to $3,000 in 1940 to 6.2% of earnings up to $106,800 today (which is matched by our employers), according to Kotlikoff it would take $50 trillion in current dollars to fund our Social Security obligations in the future based on benefits at current levels. Even Alan Greenspan, former Chairman of the Federal Reserve Board, has seen fit to weigh in. During testimony to Congress, he stated, "Our problem essentially is we have been making commitments (to Social Security) without focusing on our capability of meeting them."

We have also seen pensions, the second leg of the stool, start to wither away. Increasingly, large American companies have converted existing pension plans to so-called "cash balance" plans because they require smaller company contributions. They also favor younger workers, to the detriment of those who are about to retire. Other companies are terminating their defined benefit pension plans and fewer companies are starting new ones, choosing instead to establish retirement plans such as the 401(K) that does not require contributions by the employer (some plans are even structured not to include employer contributions) and will not pay a specific benefit to retirees, as does a defined benefit pension plan. Today only about 20% of private sector employees are covered by traditional pension plans.

The third leg seems to be in trouble too. At a time when it is more important than ever for individuals to save and invest for themselves, studies indicate that Americans are saving less and less for their own financial security and retirement. A survey by the Employee Benefit Research Institute (EBRI) revealed that the percentage of respondents saying they have saved for retirement in *any* amount decreased from 75% to 71%. Of the respondents, 54% said they had not even tried to calculate how much money they would need for retirement. Add to that the severe declines in the stock market in recent years (which, of course, also affected the solvency of existing pension plans) and we find that even many of the former "haves" have become "have nots." A national survey commissioned by the Del Webb Corporation indicated that 60% of "baby boomers" polled believe they will not have enough money to retire early. When asked how much money boomers thought they needed to retire, half claimed they did not know.

Added to this are the downbeat predictions of financial experts such as Bill Gross and Mohamed El-Erian of highly respected PIMCO, Warren Buffett (arguably the most successful stock market investor for many decades) and now deceased John Templeton (a pioneer in the mutual fund industry and the founder of the Templeton Funds). These experts, among many others, have been predicting that we may see more modest investment returns in the stock market for perhaps decades to come. Further impacting our investment returns are the lowest interest rates since the Great Depression in the 1930s. The big issue for the boomers in the future is this: even assuming that they can step up their savings significantly for retirement, how can they generate sufficient income on investments in their retirement given the prospects for a slow-growth stock market and the low interest rate environment that may pervade for many years to come?

And now, a new study just conducted by Boston College's Center for Retirement Research reports that Americans are from $6.6 trillion to $7.9 trillion in assets short of what they need to retire, based on projections of retirement and income for American workers aged 32-64.

All of these major issues affecting our financial lives are now converging on our ability to retire early, or on time, or at all. The long-term prospect of low returns from both stock and fixed-income investments demands of us more than ever that we devote significant energy to planning our earnings, expenses, asset accumulation, debt creation and elimination and investment decisions so we know what road we are taking, so we have a personal roadmap leading us to success, and so we can make adjustments along the way by taking appropriate forks in the road rather than just any fork in the road that comes along.

The most important feature of this e-Book is the Excel® files we will send to you when you request the "Finding Financial Freedom Files" by e-mailing us at arrowpublicationsUSA@gmail.com. If you do not have Microsoft Excel® on your computer, you can download the Calc program on the free OpenOffice software by going to www.openoffice.org. Our files work equally well on Excel® or on Calc. One of the files we will send you is a financial file with templates that you can use to prepare your own personal interactive roadmap to financial security. They will point out the paths that will get you there as well as the obstacles that are holding you back.

This is not something you should work on feverishly and then put on the shelf. It is a workbook both for today and for the future that you can work with, modify and learn from for the rest of your financial life. By using the Excel® worksheets within the workbook and the explanations and examples in this e-Book, you will always know where you are going financially, where it will lead you, and how you will fare when you get there. Our financial lives are constantly changing, and so will the new and updated data you input into the worksheets and the information you will obtain from them.

It is essential that Americans be educated regarding the need for proper ongoing financial planning. Many rely on a financial planner for a one-time or infrequent review. It is my experience that only a hands-on commitment by the individual whose financial security is at risk can assure that the ongoing development of the plan is successfully continued as old information becomes outdated and new information comes into play. A financial plan should always be considered a "work in progress" and you are the only person who truly cares enough about your finances to make sure it is done right and kept up to date.

Planning to achieve financial security is as much a journey as it is a destination. Nothing less than your own financial future is at stake, as Ben Stein, financial author, former White House speechwriter, *Wall Street Journal* columnist, investor and actor, so eloquently stated:

> *(Here is) an incredibly important aspect of a catastrophic problem. We have seventy-seven million people approaching retirement age in the baby boom generation. Their average savings per family is a trivial sum in today's world. Social Security will barely pay for more than one-third of their pre-retirement income. Pension plans are dicey at best and won't provide for the rest of it. People have to take responsibility for their own financial lives. They are not doing it. Despite every kind of tax advantages being thrown at them, they are not doing it. They've got to make a plan, write it down, stick to it. They are just not doing it. People are not taking*

*responsibility for their own lives and it is a very, very serious problem. (*Interview with Ben Stein, CNBC TV's "Kudlow & Cramer")

NBC's *Today* financial editor, Jean Chatzky, and author of *You Don't Have to be Rich: Comfort, Happiness, and Financial Security on Your Own Terms*, conducted considerable research with the Roper Organization for her book. She puts it this way:

> *The research that we did for the book…and we did a large study with the folks at Roper…showed that people who have control over their money are much happier than people who don't, at all levels of income. People who had managed to come up with different ways to get organized with their money, to handle their bill paying, to save something, no matter if they make $50,000 a year, $100,000 a year, or significantly more than that, are significantly happier. Living within one's means is something that we've completely forgotten how to do. Two-thirds of people aren't saving anything. What that tells me is that these people aren't living on what they make. They are living on borrowed money, and some would probably say borrowed time. It's time to come up with a plan to live within your means, in comfortable and happy fashion*. (Interview with Jean Chatzky, CNBC TV, by Liz Claman")

The American Dream has evolved into a financial battle for survival. This battle for "the good life," which has always included a home, vacations, health care coverage, education for our children, and a comfortable retirement, has become more and more elusive.

Personal financial planning is a process, not a series of financial products. It is an organized, well-planned system of using money and financial resources to achieve financial goals. Whether you are a retiring baby boomer or someone in your twenties who has recently entered the workforce, this e-Book and its accompanying Excel® files can serve as a planning system and guide for the rest of your life. It will point you in the direction of financial success and increased happiness, however you define it, if you are truly committed to taking that path.

About Using the Excel® Templates and About Personal Financial Goal Setting

1

This e-Book is devoted to helping you plan for your financial present and future. It does so by explaining the use and interpretation of an Excel® "workbook" file (see the glossary for term definitions) named "Planning," which can be used with your computer as a major contributor toward planning your financial future. Another file named "Planning (Sample)" provides a completed example of a financial plan for a fictitious couple to assist you in the development of your own personal plan. A computer with a recent version of Microsoft Excel® is required. If you do not have Excel® a free version of Sun Microsystems' OpenOffice can be downloaded at www.openoffice.org. It contains Calc, which is equally as useful as Excel® with our files. Every attempt has been made to create a turnkey product so that you can develop your own accurate plan without further assistance from anyone.

An Excel® workbook is a file document containing one or more "worksheets." By entering your financial data into the program worksheet and updating it regularly, you will always know exactly where you stand financially and whether you are on track to achieve your financial objectives for as many years as you wish to project into the future.

As with so many things in life, you get out of this only as much as you put into it. You *must* be committed to spending many hours in developing your plan if you want it to be truly meaningful for you. You have two choices. **(1)** You can begin with the "Quick Start" module in Chapter 2. If you are short on time or patience, completing this module will give you a snapshot of your current cash flow and net worth. It will not project into the future. While this module can provide interesting data, it is not a solution to long-term financial planning. Its use is designed to provide familiarity with our program that will hopefully entice you to the full-blown module named "Projections." **(2)** If you are totally committed to preparing a long-term (as many years as you select) financial plan to project your financial future and are prepared to spend a good deal of time in the development of it, we encourage you to go directly to the "Projections" module that begins with Chapter 3. This will provide you with all of the tools intended by this e-Book.

Being the creator of the file templates and the author of this e-Book, I have developed and made improvements to this planning program over a period of many years. It can be used effectively by anyone, regardless of income, expenses or financial resources. As circumstances in your financial life change (or if you wish to view a possible financial decision on a "what if" basis beforehand), you can quickly and easily update your plan and instantly view the consequences of a change or proposed financial decision by using the “Projections” module. This might be making a loan to or receiving a loan from a family member, purchasing a new home or vehicle, refinancing a mortgage, paying off a loan, changing careers, early retirement, a start over after bankruptcy…anything imaginable with a financial consequence. If you are contemplating marriage, children or divorce, the impact of those decisions on the projections in this program can be a real eye opener.

WHAT THIS E-BOOK IS AND IS NOT

This e-Book will not tell you how to invest wisely in the stock market, when to refinance your mortgage, when to change jobs, or how to become rich. There are plenty of good books on the market for that already, some of which are listed as “Suggested Reading” in the Appendix. What this e-Book *will* uniquely do, with your persistent input, is manipulate the information you insert and show the outcome of all such financial decisions. By doing so, you can readily see the big picture of your total financial plan and the small picture of the individual components of your financial plan. You will see where you are now, and where you are headed every year into the future for as far out as you wish to plan. You will get a bird’s eye view of both the forest and the trees, in the present and in the future.

You will need to look up information from many of your financial records to “fill in the blanks.” You will also have to make some assumptions and informed guesses for the “Projections” module about what will happen to you financially in the future, although you can change them at any time. In addition to projecting a long-term financial plan, you will also have the ability to track your actual financial results to see how you fared compared with your plan. You will do this with another worksheet, named “Actual,” that is also contained within the “Planning” workbook.

This e-Book is not a tutorial on the use of Excel®. Hopefully when you bought your computer or the application software you also received a program manual or have used the application tutorial to become familiar with at least the rudiments of Excel®. If you need to learn the basics of Excel® or need a brush-up, there are publications included in the “Suggested Reading” section at the end of this e-Book to help guide you. You will not need to know the application in depth. How to enter, copy and paste data, how to print sections of the worksheet for which you would like a hard copy, saving and renaming files…these are some of the things you need to know, and not much more. Formulas for calculations have already been built into the worksheet, so gathering and entering data, reviewing the results and making financial decisions will occupy most of your time with this program. A summary of how to use some of the most frequently used Excel® or Calc functions is included in the Appendix.

YOUR OWN PERSONAL FINANCIAL "BUSINESS PLAN"

If you were starting a new business from scratch, you would likely develop a business plan and involve yourself in every aspect of it so you could understand how to make the business work and achieve your objectives. This program is like that for your personal financial life. It needs not only your ongoing input as your circumstances change, but it requires your thought about what else may change in the future so you can use the program to consider the consequences of change. Since your financial plan is a long-term journey and not just a slice in time, the "Projections" module of this program, with your ongoing commitment and input, will provide insight into your dynamic and changing future, unlike the financial plans prepared by many insurance agents and financial planners that often become useless shelf documents and are of decreasing value as time passes and your circumstances change. In fact, you will find that using this program will change the way you think. It will help you anticipate change and cause you to consider multiple consequences, because you can view the results of various alternatives as you input them for review.

The "Projections" worksheet on the "Planning" workbook file we send you is fully interactive and interrelated. This means that when you change one number anywhere on the worksheet, the rest of the worksheet is instantly updated to fully reflect the consequences of that change to your cash flow statement and net worth statement into the future.

Speaking of your future, how much thought have you given to what you expect or desire to achieve financially? If you have set your financial goals, but not written them down, this would be the best time to do so. The written word gets remembered. And what gets remembered and measured gets done. Written goals, along with the measurement tools on the enclosed Excel® files, will keep your financial future at the top of your mind. As you use the tools in this e-Book to quantify the financial path down which you are headed, you will want to be sure that all of your goals are adequately addressed, both financial and otherwise.

> "Don't go around saying the world owes you a living. The world owes you nothing. It was here first."
>
> Unknown

There are far more questions you could ask yourself than we could possibly pose here, but some of them would include those that follow, depending on the stage of life and circumstances in which you find yourself. Even though many of these are personal in nature, all of them carry significant financial implications:

- What steps do I need to take for long-term financial recovery and financial security?
- Do I need more education? If so, how will I pay for it?
- Do I want to get married? If so, what kind of a person do I want to marry?
- Do I want to have children? If so, how do I want to raise them and educate them?
- Where do I want to live? Do I want to own my own home? If so, what kind of home?
- How do I know how much debt I can afford when I buy a home, car or other high cost items?
- What kind of a job do I want now and in the future?
- Do I want to own my own business?
- How much risk am I willing to take with my investments in order to achieve my objectives?
- How do I want to spend my time socially during my life and what will the cost be?
- What material things are important to me to acquire during my life?
- How much health insurance, disability income and life insurance should I have to protect myself and close family members?
- At what age do I want to retire, and what do I want my life to be like then? How will I support myself, and others if necessary, after retirement?
- Will my parents or other loved ones need financial help from me?

Writing down your goals is very important. More than that, the way you write your goals may very well have a lot to do with your success in achieving them. The following can be very useful:

STEPS TO SUCCESSFUL GOAL WRITING

1. Make sure the goal toward which you wish to work is something you really want, not just something that sounds good.
   - When setting goals, it is very important to remember that your goals must be consistent with your values.
   - Be careful what you wish for…you may get it!

2. A goal cannot contradict any of your other goals (you can't realistically have a goal to buy a million-dollar house if you've chosen a job that only pays $25,000 a year).

3. Develop goals based on nine areas of your life: personal, family, physical health, mental health, social, educational, recreational/leisure time, spiritual…and, of course, financial. And remember the importance of balancing your life!

4. Write your goal in the positive instead of the negative
   - Work for what you want, not for something to eliminate.
   - The more positive instructions you give yourself, the more positive results you will get.

5. Write your goal out in complete detail
   - Instead of writing "A new home," write something like "A 3,000 square foot contemporary home with 3 bedrooms and 3 baths and a view of the mountains on 1 acre of land."
   - You should be able to close your eyes and visualize what your goal would look like.

6. Make sure your goal is realistic and obtainable, but high enough to allow for some stretch.

7. Review your goals often.
   - If you need to scale back a goal, don't consider it a failure. Consider it a victory, as you had the insight to realize something changed.
   - Make reviewing your goals a part of your routine.
   - Keep visualizing the completed goal.

8. Develop more specific "action steps" for your goals. These are the things you need to do and the date by which you need to do them to achieve your goals.

Developing your goals now is a critical step in establishing your financial path. Until you know where you want to go, it is difficult to quantify and assign numbers to it. Everything flows downward from your goals and is centered on them.

Using the "Quick Start" Module To View a Slice in Time

2

If you don't have much time to spare right now, have very little patience, or question the value of what this book has to offer, then you should probably start with this chapter (the "Quick Start" module). With a brief amount of work, it will provide you with a cash flow statement and net worth statement that will show you exactly where you stand financially at this particular point in time. It will not project your financial situation into the future, which is obviously a much more detailed and time consuming process, as it involves making assumptions about a variety of financial variables. If you are fully committed and are prepared to spend a good deal of your time developing a full-blown financial plan that projects your finances well into the future, then you should probably start with Chapter 3 (the "Projections"module). The "Projections" module provides a number of useful calculation tools to assist you that are not possible to use in the "Quick Start" module.

The first thing you should do after you have e-mailed us at arrowpublicationsUSA@gmail.com requesting the "Finding Financial Freedom Files" is to save the Excel® files attached to our return e-mail onto your hard drive at a directory location of your choosing. To give you maximum flexibility with these files, *none of the worksheets on the "Planning" file have been write-protected*. Therefore, always work with a copy on your hard drive and keep the original files from the e-mail as they are now so that you have them in case you make an irreversible mistake or so you have a reference copy if you want to replace a formula in a cell that you may have accidentally changed. You should also frequently save and back up the data files with which you are working on your hard drive as you add or change data on them.

The first step is to start Excel® and open the files on the e-mail (or on your hard drive if you have already copied them there). Load the program by double clicking on the file named "Planning." The "Introduction" worksheet will appear on your monitor. Note at the very bottom that there are six other worksheet tabs contained in this workbook…the "Quick Start" worksheet on the far left and four others that follow it named "Projections," "Assumptions," "Federal Income Tax Estimator," "Actual" and "Loan Amortization." You can switch between these worksheets by clicking your mouse on the tabs. The seventh worksheet named "Introduction" has been preselected. We will only use the "Quick Start" worksheet in this chapter, so click on that tab now. Use of the other worksheets will be described in another chapter.

Among other things, you will see a lot of zeros in the “Quick Start” worksheet. This is the worksheet you will use to input your data in this chapter. You may wish to save the workbook under a different filename of your own creation now (Click on “File” at the upper left hand portion of the worksheet, then click on “Save As” when the menu appears, replace the name of the file using the name of your choice where it says “File name,” select the directory on your computer where you would like to store the file where it says “Save in (top left), and then click on “Save.” If you anticipate working with more than one workbook (for more than one financial plan) you will need to have separate files and file names for each plan.

When you scroll down the left-hand side of the “Quick Start” worksheet you will note that it includes a broad range of sources of funds (income) and uses of funds (expenses). This is the “cash flow statement.” Below that is a detailed listing of assets (what is owned) and liabilities (what is owed), known as a “net worth statement.”

We will now begin a line-by-line review and discussion about each line regarding how you will complete your own cash flow and net worth statements. Keep in mind that many of the line items in both the cash flow and net worth statements may not apply to you at this point. In such cases, simply leave the zero in that cell.

THE STARTING POINT

Enter your data on each row of your plan during the discussion. We will take a section at a time so it can be viewed as you read the e-Book. The best way to learn is to refer to the entire worksheet on your computer interactively as you read. This will be necessary when we refer to a “cell reference” on the worksheet. The cell reference points to a specific cell in the worksheet by naming the column (letter) and row (number) where the cell intersects.

PRELIMINARY DATA

At the top you will find three columns in alphabetical order from left to right and rows in numerical order from top to bottom. Type the date for the current calendar year into row 1 of column B (cell reference “B1”). Column B will be used to enter *projected* information for your cash flow for the current year and for actual *current* information for your net worth statement. Column C can be used after the end of the year to post actual results of the cash flow statement for comparison with projected numbers. Column D can be used to post any comments that you would find useful or as a reminder (e.g., such as how you determined a number).

Using the "Projections" worksheet on the "Planning" file, type your first planning year into cell B1. The rest of the years will automatically follow.

Place the cursor into cell A2 and enter your name. If you have a spouse or partner, enter his or her name similarly into cell A3.

Do not delete any rows from the worksheet during the development of your plan. Reference is made to row numbers in this e-Book, and if you delete rows it will be difficult to correlate specific rows on the worksheet with the same row references in the e-Book. ***Deleting rows may in some cases affect formulas in other rows***. Moreover, even though you might not use a specific row now, you may well need it at some future date.

This would be a good time to save your personal file under a new name that you will identify with this workbook plan if you haven't already done so.

BUILDING YOUR CASH FLOW STATEMENT

When we add up all of the different ways we receive money (employment income, Social Security, pensions, investment income, tax refunds, proceeds of loans we take out, cash gifts, various distributions, etc.) and then subtract all of the ways we use the money (expenses of all kinds, contributions to retirement plans and educational funds, personal investments, debt repayment, etc.) we are creating a cash flow statement. When we do it for just one year, as we will do in the "Quick Start" module, it constitutes an annual budget. When we use the "Projections" module beginning in the next chapter, it is more than a mere budget as we program it out for the rest of our lives, because it will tell us whether or not we will be financially self-sustaining.

We will not provide a complete description of what each line item represents in the "Quick Start" module, as we assume that you would know if a given line item applies to you. If you need further clarification of what any specific line item represents, you will find detailed descriptions for reference in Chapter 4.

COMPLETING THE "QUICK START" WORKSHEEET

Let's begin our review of the worksheet by discussing the money that you have coming in.

SOURCES OF INCOME:

It is important to get all taxable income into a separate category, as estimates for Federal income tax are dependent upon this for accuracy.

Some taxable income line items such as salaries play an important role in current planning, whereas others (Social Security, 401(K)/403(B) withdrawals and IRA withdrawals) will typically not come into play for most plans until later years. The "Sources of Income" have been broken down into two categories — "Taxable Income" and "Non-Taxable Income" to facilitate estimating income taxes. Let's briefly discuss each line item, starting with those that are taxable income.

TAXABLE INCOME

	A	B
1	PLANNING YEAR ENDED --------------------->	2010
2	YOUR NAME	
3	SPOUSE'S NAME	
4		
5	CASH FLOW STATEMENT	
6	SOURCES OF INCOME:	
7	*TAXABLE INCOME:*	
8	401(K)/403(B) WITHDRAWALS (FIRST INCOME)	$0
9	401(K)/403(B) WITHDRAWALS (SECOND INCOME)	$0
10	DIVIDENDS	$0
11	INCOME ON CUMULATIVE CASH FLOW	$0
12	IRA WITHDRAWALS (TRADITIONAL IRA)	$0
13	NET BUSINESS INCOME/LOSS	$0
14	SALARY/WAGES/TIPS (FIRST INCOME)	$0
15	SALARY/WAGES/TIPS (SECOND INCOME)	$0
16	SOCIAL SECURITY	$0
17	TAXABLE SECURITIES INTEREST	$0
18	VACATION PROPERTY RENTAL	$0
19	SALE OF VACATION PROPERTY	$0
20	OTHER TAXABLE SOURCE #3	$0
21	TOTAL TAXABLE INCOME	$0

401(K)/403(B) WITHDRAWALS – There are two rows for this category in case you need them for yourself and a spouse (8 and 9). If you have one or more of these plans, enter any income you expect to receive this year from a retirement plan such as a 401(K) plan or a 403(B) plan.

DIVIDENDS – First, enter the market value of equity investments you own in personal accounts, including individual stocks, mutual funds and Exchange Traded Funds, into cell B90. Then enter the amount of dividends you expect to receive from these investments in cell B10.

INCOME ON CUMULATIVE CASH FLOW – This line item only applies to the "Projections" module, so you may ignore it here.

IRA WITHDRAWALS (TRADITIONAL IRA) – If you have a traditional (regular) IRA enter any income you expect to receive from it this year.

NET BUSINESS INCOME/LOSS – If you own or plan to own a business, enter the net income or loss (income less expenses) in cell B13 Include only cash income and cash expenses. Do not include non-cash items such as depreciation or home office deductions here.

SALARY/WAGES/TIPS – There are two rows (14 and 15) for two salaries as needed. Enter any current gross salaries (do not subtract any deductions) in column B.

SOCIAL SECURITY – If you and/or your spouse are currently receiving Social Security benefits, enter the annual amount you expect to receive this year.

TAXABLE SECURITIES INTEREST – Amounts in this row relate to the taxable fixed income securities category on row 91 in the net worth statement. This would include Treasury securities, corporate bonds and bank certificates of deposit. It could also include mortgages held as an investment…or you could segregate those as a separate "Other Taxable Source" line item later if you would prefer. Enter the amount of taxable fixed income securities you own in cell B91. Then enter the amount of interest you expect to receive from these investments in cell B17.

OTHER TAXABLE SOURCES – You are provided with three lines that can be named and used for taxable income that is specific to you. This might be for such other things as pensions, alimony received, rental income, gambling winnings, unemployment compensation, consulting income…anything producing taxable income that is not listed in one of the other categories. This income may or may not be tied to an asset that is listed in the net worth statement under "Other Current Assets" or "Other Long-Term Assets."

TOTAL TAXABLE INCOME – The total for your plan will be automatically calculated.

Now we will turn to sources of income that are usually not taxed.

CREDIT CARD CASH ADVANCES – Loans, including cash advances from credit cards, are a source of funds to support cash needs at times. While this is normally not a typical source that people look to for cash, in a very low interest rate environment many people are offered the opportunity to borrow money from credit card companies at extremely low rates. Credit card advances, if any, should be entered on row 23.

NON-TAXABLE INCOME

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
22	***NON-TAXABLE INCOME:***			
23	CREDIT CARD ADVANCES	$0		
24	EDUCATION FUND WITHDRAWALS	$0		
25	EQUITY SECURITIES WITHDRAWALS	$0		
26	GIFTS RECEIVED (CASH)	$0		
27	IRA WITHDRAWALS (ROTH IRA)	$0		
28	TAXABLE FIXED INCOME SECURITIES WITHDRAWALS	$0		
29	OTHER CONSUMER CREDIT – CASH RECEIVED	$0		
30	TAX EXEMPT FIXED INCOME SECURITIES WITHDRAWALS	$0		
31	TAX EXEMPT INTEREST	$0		
32	OTHER NON-TAXABLE SOURCE #1	$0		
33	OTHER NON-TAXABLE SOURCE #2	$0		
34	OTHER NON-TAXABLE SOURCE #3	$0		
35	TOTAL NON-TAXABLE INCOME	$0		
36	**TOTAL SOURCES OF INCOME**	$0		

EDUCATION FUND WITHDRAWALS – If you have established an education fund, enter the current market value of this fund in cell B100. Then enter the amount of any withdrawals you expect to make from this fund in cell B24.

EQUITY SECURITIES WITHDRAWALS – Withdrawals (sales) of equity securities (row 25) is associated with row 90 (equity securities), the asset in the net worth statement. If you plan to sell and utilize the proceeds of any equity investments included in cell B90, enter the amount here.

GIFTS RECEIVED – If you expect to receive a cash gift this year, enter the amount in row 26. It will be added as a source of income and will affect the cash flow for that year. Non-cash gifts would affect an asset line item, so do not use row 26, as this is for cash gifts only. For non-cash gifts of significant value, make an adjustment to the appropriate line item in the net worth statement that is affected by the gift. For example, if you expect to receive a gift of $25,000 of stocks this year, you would go to cell B90. Simply press the F2 key and at the end of the formula type in +25000. This will add $25,000 to the balance in equity securities, but will not affect the current cash flow.

IRA WITHDRAWALS (ROTH IRA) –If you have a Roth IRA, you should be able to take tax-free withdrawals at any time, provided the account has been open for at least five years. Enter the market value of Roth IRA investments you own in cell B102. Then enter the amount of any withdrawal distributions you expect to receive from these investments this year in cell B27.

OTHER CONSUMER CREDIT – CASH RECEIVED – Consumer loans are another potential source of funds to support cash needs at times, especially for purchasing automobiles, home furnishings, home improvements, etc. Cash received from new consumer loans other than credit card advances should be entered on row 28.

TAXABLE FIXED INCOME SECURITIES WITHDRAWALS – Withdrawals (sales) of taxable fixed income securities (row 29) is associated with row 91 (taxable fixed income securities), the asset in the net worth statement. If you plan to sell and utilize the proceeds of any taxable fixed income investments included in cell B91, enter the amount here.

TAX EXEMPT FIXED INCOME SECURITIES WITHDRAWALS – This line item (row 30) is associated with row 92 (tax exempt fixed income securities), which is the asset in the net worth statement. If you have tax exempt fixed income securities, enter the amount of tax exempt fixed income securities you own in cell B92. If you plan to sell and utilize the proceeds of any tax exempt fixed income investments included in cell B92, enter the amount here.

TAX EXEMPT INTEREST – Amounts in this row relate to the tax exempt fixed income securities category on row 92 in the net worth statement. Enter the amount of any interest you expect to receive from any such investments in cell B31.

OTHER NON-TAXABLE SOURCES – Three additional lines are provided that can be named and used for non-taxable income that is specific to you. This might be for anything producing a non-taxable source of funds that is not listed in one of the other categories. Examples might be other loans from banks or relatives. If you were to take out such a loan, you would need to list the loan as other short-term debt (if the loan would need to be repaid within one year) or other long-term debt (if the loan would be repaid in over one year) in the liabilities section of the net worth statement.

TOTAL NON-TAXABLE INCOME – The total for your plan will be automatically calculated.

TOTAL SOURCES OF INCOME – The total for your plan will be automatically calculated.

USES OF INCOME:

Next we will focus on all of the uses you make of your income sources to see if their income will sustain them given your current expenses. These uses are separated into two categories: (1) non-discretionary expenses (those which are viewed as mandatory and over which they have little or no control), and (2) discretionary (those expenses that can largely be controlled or which may be more readily reduced or eliminated if necessary).

Let's continue with the non-discretionary expenses.

NON-DISCRETIONARY EXPENSES:

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
38	**USES OF INCOME:**			
39	***NON-DISCRETIONARY EXPENSES:***			
40	CHILD CARE	$0		
41	FOOD	$0		
42	HOUSEHOLD	$0		
43	INCOME TAXES-FEDERAL/STATE	$0		
44	INSURANCE-LIFE/DISABILITY	$0		
45	INSURANCE-MEDICAL/DENTAL	$0		
46	INSURANCE-PROPERTY/CASUALTY	$0		
47	MEDICAL/DENTAL EXPENSES (ABOVE INSURANCE)	$0		
48	MORTGAGE PAYMENTS ON RESIDENCE	$0		
49	MORTGAGE PAYMENTS ON VACATION PROPERTY	$0		
50	OTHER CONSUMER CREDIT OBLIGATIONS REPAYMENT	$0		
51	PROPERTY TAXES	$0		
52	SOC. SEC./MEDICARE TAXES (FIRST INCOME)	$0		
53	SOC. SEC./MEDICARE TAXES (SECOND INCOME)	$0		
54	UTILITIES	$0		
55	VEHICLES	$0		
56	OTHER NON-DISCRETIONARY EXPENSE #1	$0		
57	OTHER NON-DISCRETIONARY EXPENSE #2	$0		
58	OTHER NON-DISCRETIONARY EXPENSE #3	$0		
59	TOTAL NON-DISCRETIONARY EXPENSES	$0		

CHILD CARE – Enter into cell B40 any child care expenses you expect to incur this year.

FOOD – Row 41 would obviously include food purchased at grocery stores, but could also include expenses for restaurants if you eat out frequently. Some users may feel that eating out is a discretionary expense and prefer to create a separate line item for it under that category. The choice is yours to determine what is most meaningful for you.

HOUSEHOLD – This should not include payments on any mortgage(s) you have on a home or utility expenses, as there are separate line items for them. Household expenses would typically cover repairs, maintenance, yard work and other expenses that you would consider as requirements to maintain the home or improve it and perhaps even include replacement of some household items.

INCOME TAXES-FEDERAL/STATE – You can complete cell B43 in one of two ways: (1) If you know approximately what your total Federal and state income tax liability will be for the year (for example, based on total withholding less expected refunds or additional amounts owed), you can enter that net amount in cell B43. (2) You can also estimate your tax liability by utilizing the tab on the workbook named "Federal Income Tax Estimator." This worksheet will assist you in making quick estimates of Federal tax liability for the first year of your plan. If you do your own tax returns, this will be simple. If a preparer does them for you, get your copy of your last Federal and state returns. Simply enter the projected income and deduction items for this tax year that are on the worksheet, using the appropriate column (single or married). The standard deduction is automatically computed on row 20 when you enter the number of exemptions, so if you itemize deductions, replace the standard deduction amount with your estimated itemized deductions.

Note that this estimator is only for Federal income tax. You need to separately estimate your state tax and enter that amount in cell D29 of the tax estimator (C29 for single taxpayers). Since each state has its own tax computation methodology, it is not possible to provide for this in the worksheet. Just estimate your state tax liability based on your past tax returns and make an adjustment to take into consideration any change in your taxable income from the previous year.

That is all you need to do. The "Federal Tax Estimator" worksheet computes the estimated tax, which is then automatically entered into cell reference B43 of the "Quick Start" worksheet (unless you enter a number yourself), as that cell is linked to cell D33 of the tax estimator worksheet within this workbook (C33 for single taxpayers).

	A	B	C	D
1			SINGLE	MARRIED
2			TAXPAYER	JOINT
3	**FEDERAL INCOME TAX ESTIMATOR**		RETURN	RETURN
4				
5	WAGES, SALARIES, TIPS		$0	$0
6	TAXABLE INTEREST INCOME		$0	$0
7	STATE TAX REFUNDS		$0	$0
8	ALIMONY RECEIVED		$0	$0
9	CAPITAL GAIN (SHORT-TERM--UNDER 12 MONTHS)		$0	$0
10	BUSINESS INCOME (LOSS)		$0	$0
11	OTHER TAXABLE INCOME		$0	$0
12	CAPITAL GAIN (LONG-TERM--OVER 12 MONTHS); 15% RATE		$0	$0
13	DIVIDENDS; 15% RATE		$0	$0
14	TOTAL INCOME		$0	$0
15				
16	IRA DEDUCTION		$0	$0
17	ALIMONY PAID		$0	$0
18	OTHER ADJUSTMENTS TO INCOME		$0	$0
19	EXEMPTIONS	2	$0	$0
20	STANDARD OR ITEMIZED DEDUCTIONS		$0	$0
21	TOTAL ADJUSTMENTS, DEDUCTIONS AND EXEMPTIONS		$0	$0
22				
23	TAXABLE INCOME:		$0	$0
24	TAXABLE AT ORDINARY RATE		$0	$0
25	TAXABLE AT LOWER RATE		$0	$0
26				
27	FEDERAL TAX		$0	$0
28				
29	STATE TAX ESTIMATE (ENTER THE AMOUNT YOU		$0	$0
30	ESTIMATE YOUR STATE TAX WILL BE IN THE			
31	APPROPRIATE COLUMN UNDER THE FEDERAL TAX)			
32				
33	**TOTAL ESTIMATED TAX LIABILITY**		$0	$0

INSURANCE-LIFE/DISABILITY – Include the cost of any group (employer) insurance as well as personal policies.

INSURANCE-MEDICAL/DENTAL – Include any deductions for your share of the cost of employer provided coverage as well as the cost of any individual policies.

INSURANCE-PROPERTY/CASUALTY – Include all real estate insurance, umbrella (excess liability) coverage and vehicle insurance (unless you choose to place it elsewhere) in row 46.

MEDICAL/DENTAL EXPENSES (ABOVE INSURANCE) –This is an estimate of the annual medical and dental expenses you expect to pay that will not be covered by insurance (including deductibles and co-payments).

MORTGAGE PAYMENTS ON RESIDENCE – You should include the principal and interest components of your house payment in row 48. If your payment also includes an escrow for taxes and insurance, it would be preferable to separate these amounts out and place them into property taxes and insurance-property/casualty unless you would prefer to include them in this category.

MORTGAGE PAYMENTS ON VACATION PROPERTY – If you own a vacation property or other real estate, enter the principal and interest payments on row 49. As with their residence, you may wish to include property taxes and insurance in other lines items rather than on row 49.

OTHER CONSUMER CREDIT REPAYMENTS – Row 50 should include the total payments on other debt, such as installment loans and single-payment loans. Home equity loan or line of credit payments could be included in this category as well, or you can include them under "Mortgage Payments on Residence."

PROPERTY TAXES – This should normally include taxes on real property, such as your home, second home, vacation property, and any other real estate. Taxes on vehicles is best included with vehicle expense.

SOC.SEC./MEDICARE TAXES (FIRST INCOME & SECOND INCOME) – This is automatically calculated in the "Projections" module, but you will need to manually enter the numbers in cell B52 and B53 for the year, as appropriate for the "Quick Start" module. The following rates are currently applicable:

- Employee: 7.65% (6.2% Social Security on the first $106,800 of income; 1.45% Medicare on all wages)

- Self-employed: 15.30% (12.4% Social Security on the first $106,800 of taxable income; 2.9% Medicare on entire taxable income).

UTILITIES – Utilities include the annual total of gas, electricity, telephone (local and long distance), water, cell phone, refuse hauling, sewer use fees, cable and Internet in row 54.

VEHICLES – This category is an example of how one user may choose to enter the data differently than another. If you have a vehicle loan, you could include the payments here, or you could choose to create a separate category using one of the "Other Non-Discretionary Expense" rows (e.g., naming it "Vehicle Loan Payments"). By the way, vehicle expense is included in the non-discretionary category because vehicles are usually needed for employment. If you own any vehicles not required for employment, you may wish to break expenses for them out separately into a discretionary expense category. You should use the categories so that they have the most meaning for you. For example, you might choose to combine vehicle insurance with other insurance expenses rather than put them in with vehicle expenses. The choice is yours. Consistency is what is important. It is suggested that you make notes about what is included in any given category where possible confusion might result. Use the column labeled "Comments" for this purpose.

OTHER NON-DISCRETIONARY EXPENSES – If you have non-discretionary expenses that do not fit well into any other category (e.g., alimony payable), or if you wish to segregate a specific expense item so you can watch it more closely, you can include it under one of the three rows available here. Simply type in the name of the expense in column A using one of rows 56-58 and enter the estimated expenses in the same row.

TOTAL NON-DISCRETIONARY EXPENSES – The total for your plan will be automatically calculated.

DISCRETIONARY EXPENSES:

Discretionary expenses are those over which we exercise at least some if not total control. It is important to segregate these expenses, because if you wish to try to reduce expenses, this is the first place to look.

401(K)/403(B) PLAN CONTRIBUTIONS –As applicable, rows 61 and 62 should include the total of your contributions (not employer contributions) for the year.

CHARITABLE CONTRIBUTIONS – Includes all cash contributions to churches, United Way and other charitable organizations.

CREDIT CARD REPAYMENT – If applicable, row 64 should be used for payments you would make on financed credit card obligations that are not immediately paid off in the regular course of use.

EDUCATION EXPENSES – Enter the amounts of any education expenses you expect to pay this year in row 65, regardless of whether you have established an education fund or not.

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
60	***DISCRETIONARY EXPENSES:***			
61	401(K)/403(B) PLAN CONTRIBUTIONS (FIRST INCOME)	$0		
62	401(K)/403(B) PLAN CONTRIBUTIONS (SECOND INCOME)	$0		
63	CHARITABLE CONTRIBUTIONS	$0		
64	CREDIT CARD REPAYMENT	$0		
65	EDUCATION EXPENSES	$0		
66	EDUCATION FUND CONTRIBUTIONS	$0		
67	ENTERTAINMENT	$0		
68	EQUITY SECURITIES PURCHASES	$0		
69	GIFTS FOR OTHERS	$0		
70	IRA CONTRIBUTIONS (ROTH IRA)	$0		
71	IRA CONTRIBUTIONS (TRADITIONAL IRA)	$0		
72	MISCELLANEOUS	$0		
73	TAXABLE FIXED INCOME SECURITIES PURCHASES	$0		
74	TAX EXEMPT FIXED INCOME SECURITIES PURCHASES	$0		
75	TRAVEL/VACATIONS	$0		
76	VEHICLE REPLACEMENT FUND CONTRIBUTIONS	$0		
77	OTHER DISCRETIONARY EXPENSE #1	$0		
78	OTHER DISCRETIONARY EXPENSE #2	$0		
79	OTHER DISCRETIONARY EXPENSE #3	$0		
80	TOTAL DISCRETIONARY EXPENSES	$0		
81	**TOTAL USES OF INCOME**	$0		
82		$0		
83	**POSITIVE/NEGATIVE CASH FLOW**	$0		

EDUCATION FUND CONTRIBUTIONS – If you are setting aside funds for future education expenses, include any amounts you expect to add to the fund this year.

ENTERTAINMENT – This should include movies, parties, eating in restaurants (unless you elect to include it in the food category) and all other discretionary entertainment. Include those expenses here that could be reduced or eliminated if absolutely necessary.

EQUITY SECURITIES PURCHASES – If your investment risk tolerance is consistent with owning stocks, mutual funds or Exchange Traded Funds (ETFs), you may be adding to equity investments on a regular basis as you accumulate cash. Enter the annual amount of such additions in row 68.

GIFTS FOR OTHERS – Enter the expected annual amount of gifts for others (cash or otherwise) you will give. One approach would be to use an average of your past gift expenses and then add anything new that may be contemplated.

IRA CONTRIBUTIONS (ROTH IRA) – If you have one or more Roth IRAs (plans where you do not receive a tax deduction when contributions are made and where withdrawals are not subject to income tax), enter the amount of any expected annual contributions in row 70.

IRA CONTRIBUTION (TRADITIONAL IRA) – If you have one or more traditional IRAs (plans where you receive a tax deduction when contributions are made and where withdrawals are subject to income tax), enter the amount of any expected annual contributions in row 71.

MISCELLANEOUS – If you need a slush fund, this is the place for it. Include any expenses in row 72 that are small in nature and that don't belong in another defined category.

TAXABLE FIXED INCOME SECURITIES PURCHASES – If you expect to acquire taxable fixed income securities, enter the annual amount of such additions in row 73.

TAX EXEMPT FIXED INCOME SECURITIESPURCHASES – If you expect to acquire tax exempt fixed income securities, enter the annual amount of such additions in row 74.

TRAVEL/VACATIONS – Enter your estimated annual expenses for any travel and vacations you expect to take. Travel for business purposes that is reimbursed by an employer should not be entered into this category. Such travel, if reimbursed, is probably best left out of the plan entirely.

VEHICLE REPLACEMENT FUND CONTRIBUTIONS – If you plan to save in advance for a vehicle rather than borrowing the money at the time you buy it, row 76 is the right place to enter the amount you expect to save annually.

OTHER DISCRETIONARY EXPENSES – If you have discretionary expenses that do not fit well into any other category, or if you wish to segregate a specific expense item so you can watch it more closely, you can include it under one of the three rows available here. Simply type in the name of the expense in column A, using one of rows 77-79, and enter the estimated expenses in the same row.

TOTAL DISCRETIONARY EXPENSES – The total for your plan will be automatically calculated.

TOTAL USES OF INCOME – The total for your plan will be automatically calculated.

POSITIVE/NEGATIVE CASH FLOW – This number is probably the single most important one on the entire worksheet. It indicates (1) whether you are living within your means and (2) whether you are able to save money for the future, which drives the growth or shrinkage of the net worth statement on the worksheet.

If your sources of income are greater than your uses of income, this is a positive figure. The reverse would cause a negative number. Row 83 should be a major area of focus after the draft of your worksheet is completed. If you see a negative number in this row, it is time to start planning for how you are going to increase your income or reduce your expenses, or both. This row has a significant impact on the net worth statement, as it will grow or shrink in part based upon the amount of positive or negative cash flow. And now that your cash flow statement for the first year has been completed, it's time to move on to its logical extension, your net worth statement.

BUILDING YOUR NET WORTH STATEMENT

The net worth statement is a detailed summary of everything you own, everything you owe, and the difference between the two (hopefully a very positive number). There are a number of ways that net worth can be enhanced, either by increasing what you own, decreasing what you owe, or a combination of both. Some of the most obvious ways are: (1) increasing your income, (2) the growth (price appreciation) in value that typically occurs over time with assets such as real estate and investments, (3) receipt of gifts and inheritances, (4) reduction of debt, including the amortization (paying down) of mortgages and other loans, and (5) the creation of positive cash flow by proper management of your expenses in relationship to your income.

Assets are always listed first, followed by liabilities, and then followed by the net worth computation. Assets are separated into current assets (immediately or quickly available for use, within one year or less) and long-term assets (not readily available, or only available in one year or more). Liabilities are similarly separated into current liabilities (obligations due within one year) and long-term liabilities (obligations due in longer than one year).

In addition to being a major part of your lifetime plan that will determine your financial success or failure, the net worth statement has other implications for your financial life. If you plan to borrow money to purchase or refinance a house, purchase a vehicle or borrow for any other purpose, the lenders will want to have a current copy of your net worth statement, or much of the information that constitutes it. They will also likely want information on some of the more significant income and expense items from your cash flow statement. After completing the worksheet, providing the information in detail will be a simple matter for you.

Note that the header in cell reference A87 says "Current." In working through the cash flow statement you should not think about the whole year, but just think about where you are today when you plug in the numbers.

CURRENT ASSETS:

We will begin by examining the current assets…those assets that are generally available for use to meet expenses at any time from the present up to one year.

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
87	**NET WORTH STATEMENT (START OF YEAR)**			
88	**ASSETS:**			
89	CASH AND CUMULATIVE CASH FLOW	$0		
90	EQUITY SECURITIES	$0		
91	TAXABLE FIXED INCOME SECURITIES	$0		
92	TAX EXEMPT FIXED INCOME SECURITIES	$0		
93	OTHER CURRENT ASSET #1	$0		
94	OTHER CURRENT ASSET #2	$0		
95	OTHER CURRENT ASSET #3	$0		
96	**TOTAL CURRENT ASSETS**	$0		

CASH AND CUMULATIVE CASH FLOW – Your challenge as you continue to work your plan is to at least bring the numbers in row 83 to above $0 and hopefully to produce increasingly positive numbers over subsequent years as you continue with the "Projections" module. The first line of the current assets, row 89, is particularly important. This line automatically adds the positive or negative cash flow from row 83 into the net worth statement. "Cash and Cumulative Cash Flow," and its counterpart in the cash flow statement, "Positive/Negative Cash Flow," are principal indicators of your financial health. Over time you should hopefully accumulate a significant amount of cash flow if you can control your expenses to a level below your income.

EQUITY SECURITIES – This asset category would generally include stocks, mutual funds and Exchange Traded Funds (ETFs). You have already entered the value of equities if you have such investments.

TAXABLE FIXED INCOME SECURITIES – This would include a fixed income portfolio of taxable bonds, which you have already entered into cell B91 if it applies to you.

TAX EXEMPT FIXED INCOME SECURITIES – This would include a fixed income portfolio of tax exempt bonds, which you have already entered into cell B92 if it applies to you.

OTHER CURRENT ASSETS – If you have other current assets that do not fit well into any other category, or if you wish to segregate a specific current asset item so you can watch it more closely, you can include it under one of the three rows available. Simply type in the name of the current asset in column A using one of rows 93-95 and enter the value in the same row.

TOTAL CURRENT ASSETS – The total for your plan will be automatically calculated.

LONG-TERM ASSETS:

Long-term assets are those that are generally not available to you for use currently or within one year.

401(K)/403(B) PLAN – If you participate in one or more 401(K)/403(B) plans, you have already entered the current balance(s) into cells B98 and B99.

EDUCATION FUND – If you will have education expenses and have, or plan to have, an education fund, enter any current balance in cell C100.

HOUSEHOLD GOODS – Enter the estimated value of your household goods in cell B101.

IRA (ROTH IRA) – If you have one or more Roth IRAs you have already entered the current balance(s) in cell B102.

IRA (TRADITIONAL IRA) – If you have one or more traditional IRAs you have already entered the current balance(s) in cell B103.

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
97				
98	401(K)/403(B) PLAN (FIRST INCOME)	$0		
99	401(K)/403(B) PLAN (SECOND INCOME)	$0		
100	EDUCATION FUND	$0		
101	HOUSEHOLD GOODS	$0		
102	IRA (ROTH IRA)	$0		
103	IRA (TRADITIONAL IRA)	$0		
104	LIFE INSURANCE CASH VALUE	$0		
105	RESIDENCE	$0		
106	VACATION PROPERTY	$0		
107	VEHICLE REPLACEMENT FUND	$0		
108	VEHICLES	$0		
109	OTHER LONG-TERM ASSET #1	$0		
110	OTHER LONG-TERM ASSET #2	$0		
111	OTHER LONG-TERM ASSET #3	$0		
112	**TOTAL LONG-TERM ASSETS**	$0		
113				
114	**TOTAL ASSETS**	$0		

LIFE INSURANCE CASH VALUE – If you own "permanent" insurance that accumulates cash value, enter the total current cash value of any such policies in cell B104. Many individuals and families have "term insurance" policies that usually do not build cash value and only provide risk protection.

RESIDENCE – This is the largest single asset owned by many people. The number placed in cell B105 should be the current market value of your home if you own one. If needed, you can get help in determining the value by researching home values in your neighborhood on the Web site of Zillow.com (www.zillow.com). Other Web sites, such as www.homegain.com and www.domania.com may also be of value. You can also use your real estate tax records as a guide, although the current market value will often be higher than the tax valuation. Enter the expected annual growth rate of its value in cell B105 of the "Assumptions" worksheet. The rate of growth, and in some years the decline, in home values varies considerably throughout the country. This information is likely available from your local Chamber of Commerce, newspaper or a Realtor.

VACATION PROPERTY – If you own a vacation property, enter the current market value in cell B106. If it produces income, the net amount should have already been entered using an "Other Taxable Source."

VEHICLE REPLACEMENT FUND – If you are saving in advance for a replacement vehicle, use row 107 to record the current balance you have in this fund.

VEHICLES – For cell B108, information on the value of automobiles, SUVs and trucks can be obtained online by going to the Kelley Blue Book Web site, www.kbb.com. Click on the appropriate link under "What's my Blue Book value?" Another source is www.autobytel.com. Click on "Used Cars" and go from there. Another source is AutoTrader (www.autotrader.com). These are vehicles that are for sale by individuals as well as dealers and will give you a good idea what your vehicles are worth. Use CycleTrader (www.cycletrader.com) for valuations on motorcycles. As a last resort, a personal banker (or other consumer lending officer) at your bank often will have information available on vehicle valuations.

OTHER LONG-TERM ASSETS – If you have other long-term assets that do not fit well into any other category, or if you wish to segregate a specific long-term asset item so you can watch it more closely, you can include it under one of the three rows available here. Simply type in the name of the long-term asset in column A using one of rows 109-111 and enter the value in the same row.

TOTAL LONG-TERM ASSETS – The total for your plan will be automatically calculated.

TOTAL ASSETS – The total for your plan will be automatically calculated.

CURRENT LIABILITIES:

Of all your obligations and debts, those that are current liabilities are the most pressing. They are either due and payable now or within one year.

CREDIT CARDS – If you have existing credit card debt, enter the total balances in cell B117.

INCOME TAXES PAYABLE – This category is for income taxes that might be owed in the future (but not now) on an asset in the net worth statement. For example, if you own stock that is worth considerably more than you paid for it, you would be faced with a capital gain in the event the stock was sold. A completely accurate net worth statement would take into consideration this potential future tax liability, as it is likely that the tax will be triggered at some point. Under current tax regulations, the maximum long-term capital gain tax rate is 15%. Therefore, if you had such a built-in gain, you could take 15% of the amount of current gain and list that amount in this category. Another example might be deferred compensation or stock options. For individuals having such assets, they should be listed on the net worth statement. As they would trigger an income tax consequence when cashed or exercised, the estimated future tax liability should be listed on this row for complete accuracy.

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
116	**LIABILITIES:**			
117	CREDIT CARDS	$0		
118	INCOME TAXES PAYABLE	$0		
119	OTHER CONSUMER CREDIT	$0		
120	OTHER SHORT-TERM DEBT #1	$0		
121	OTHER SHORT-TERM DEBT #2	$0		
122	OTHER SHORT-TERM DEBT #3	$0		
123	**TOTAL CURRENT LIABILITIES**	$0		

OTHER CONSUMER CREDIT – If you currently have other consumer credit debt obligations, enter the total balances in cell.

OTHER SHORT-TERM DEBT – Other debt and borrowed funds that must be repaid within one year should be listed here. An example would be a short-term bank note.

TOTAL CURRENT LIABILITIES – The total for your plan will be automatically calculated.

LONG-TERM LIABILITIES:

Long-term liabilities are either due and payable more than one year from now.

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
125	MORTGAGE ON RESIDENCE	$0		
126	MORTGAGE ON VACATION PROPERTY	$0		
127	OTHER LONG-TERM DEBT #1	$0		
138	OTHER LONG-TERM DEBT #2	$0		
129	OTHER LONG-TERM DEBT #3	$0		
130	**TOTAL LONG-TERM LIABILITIES**	$0		
131		$0		
132	**TOTAL LIABILITIES**	$0		

MORTGAGE ON RESIDENCE – If you have a mortgage loan on your residence, enter the current balance in cell B125.

MORTGAGE ON VACATION PROPERTY – If you own a vacation property and have a mortgage loan on it, enter the current balance in cell B125.

OTHER LONG-TERM DEBT – Other debt and borrowed funds that are scheduled to be repaid in over one year should be listed here. An example would be a long-term personal loan from a relative with payments over a period of years.

TOTAL LONG-TERM LIABILITIES – The total for your plan will be automatically calculated.

NET WORTH AND VARIOUS RATIOS:

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**		
2	**YOUR NAME**			
3	**SPOUSE'S NAME**			
4				
134	**NET WORTH**	$0		
135				
136	**CURRENT RATIO**	0.0%		
137	**DEBT TO WORTH RATIO**	0.0%		
138	**NON-DISCRETIONARY EXPENSES TO TOTAL INCOME**	0.0%		
139	**DISCRETIONARY EXPENSES TO TOTAL INCOME**	0.0%		
140	**TOTAL EXPENSES TO TOTAL INCOME**	0.0%		
141	**SAVINGS RATE**	0.0%		

NET WORTH – This figure is your total assets less your total liabilities. The number for your plan will be automatically calculated.

CURRENT RATIO – Dividing current assets by current liabilities provides the current ratio. Since current liabilities are debts that come due within one year, there should always be more current assets than current liabilities so that debt payments can be met. Therefore, the ratio should be 100% or more, and the higher the ratio the better.

DEBT TO WORTH RATIO – This key ratio is calculated by taking total liabilities and dividing that number by the net worth figure. Obviously the lower the ratio, the better off you are. People whose debt exceeds their worth (ratio greater than 100%) are in danger of financial difficulty, and the higher the percentage the greater the danger they are in. It would be particularly precarious if most of the debt were in current liabilities that need to be repaid soon.

NON-DISCRETIONARY EXPENSES TO TOTAL INCOME – This tells you how much of your income is tied up in paying for things over which you have little or no control. The higher the figure, the more strapped you are. It allows little room for error if significant unexpected expenses occur or if there is a loss of income and a cash reserve is not available. Reducing non-discretionary expenses over time where possible is a worthy goal for everyone. If this figure is over 100% and you have little cash or other current assets and no borrowing capability, asset liquidation will be required or bankruptcy may eventually follow.

DISCRETIONARY EXPENSES TO TOTAL INCOME – These are expenses that theoretically could be eliminated or reduced much more easily should it become necessary to do so. While we need to manage *all* of our expenses prudently so that our cash flow is positive over time, discretionary expenses are not as serious because they can be cut quickly in many cases in the event of financial emergency. For many people, however, discretionary expenses can also be hard to eliminate due to certain lifestyle expectations that are cultivated over time.

TOTAL EXPENSES TO TOTAL INCOME – The lower this number is the better off we are financially. If it exceeds 100% it means that we are spending more than we are taking in (negative cash flow), which should prompt a line-by-line review to "balance the budget," particularly if there are not adequate cash reserves or assets that can be converted to cash to cover the deficit in cash flow. If this ratio is less than 100% it means that we have positive cash flow and are saving money. The lower the number the better for positive cash flow and the better for wealth accumulation on the net worth statement.

SAVINGS RATE – This number is related to the previous calculation. It is just stated in a different way. If this number is negative, it tells us the percentage of our income that we need to withdraw from one or more asset categories or borrow from a creditor to make ends meet. If it is a positive number, it expresses the percentage of our total income that we are able to save (more income than expenses, creating positive cash flow). Americans have a notoriously low savings rate…typically just a few percentage points or less. The Japanese, on the other hand, are very savings conscious. They often add 10% or more of their gross income to savings each year.

Congratulations! You have now completed your cash flow statement and net worth statement and have hopefully done some analysis using the above ratios to draw some conclusions about your financial health. Just this information will prove of value to you in some of your financial decision making, but it is only a taste of what you can accomplish by continuing on with the "Projections" module in Chapter 3. This will give you the ability to make some assumptions that will project your cash flow and net worth statements out far into the future…even to the projected end of your life. The information you have gathered and entered into the "Quick Start" module will also be used in the "Projections" module, so you are already ahead of the game. Please continue on…and good luck.

"More and more these days I find myself pondering how to reconcile my net income with my gross habits."

John Nelson

Using the "Projections" Module for a Peek into the Future

3

If you are fully committed and are prepared to spend a good deal of your time developing a full-blown financial plan that projects your finances well into the future, then you should start with this chapter, or continue on after using the "Quick Start" module. Beginning here will not involve a great deal more complication; it will just require more time, thought and persistence on your part. But it will also provide you with far more information, looking deeply into your projected financial future to provide you with new insights about where you will be financially far into the future. It will allow you to model "what if" scenarios and start you thinking about course changes you may want to make to create a more preferred future, depending on your personal financial goals.

The first thing you should do after you have e-mailed us at arrowpublicationsUSA@gmail.com requesting the "Finding Financial Freedom Files" is to save the Excel® files attached to our return e-mail onto your hard drive at a directory location of your choosing. To give you maximum flexibility with these files, *none of the worksheets on the "Planning" file have been write-protected*. Therefore, always work with a copy on your hard drive and keep the original files from the e-mail as they are now so that you have them in case you make an irreversible mistake or so you have a reference copy if you want to replace a formula in a cell that you may have accidentally changed. You should also frequently save and back up the data files with which you are working on your hard drive as you add or change data on them.

MEET BEN SAVIN AND VERA SAVIN

Using this module, a comparison with another financial plan will be very helpful. Let's introduce you to a couple named Ben and Vera Savin. They completed the draft of their financial plan using *Finding Financial Freedom* and are ready to do an initial review. Following that review, they will continue to fine-tune their plan until they determine it is workable. They will also make changes on an ongoing basis as new events unfold that affect their family's financial future. By the way, this should be a joint venture between spouses if you are married. A lot of good communication can take place as you develop your plan.

Ben and Vera do not have big financial problems, so they are fortunate. If you are not so fortunate, your use of this e-Book and the Excel® templates can be just as beneficial for you…perhaps even more so. Their story is by no means a model. It is used only as an example to facilitate the development of your plan.

Ben will be forty in 2010 and Vera will be 39. They have been married for six years and have a son who is almost four. They have a home, a vacation property, and steady jobs. Ben and Vera have a goal to retire at the same time when Ben turns 62 in 2032. They also have a small home-based business that they expect to continue developing, and they like to travel. Ben and Vera plan to have their son attend the local state university.

Ben and Vera will allow us to examine their personal cash flow & net worth statement data so you can become familiar with how the program works. This will facilitate your ability to adapt the program for your own input, regardless of your financial circumstances, and for interpreting and modifying its output.

The first step is to start Excel® and open the files on the e-mail (or on your hard drive if you have already copied them there). Load the program by double clicking on the file named "Planning." The "Introduction" worksheet will appear on your monitor. Note at the very bottom that there are six other worksheet tabs contained in this workbook…the "Quick Start" worksheet on the far left is used in Chapter 2. The four others that follow it are named "Projections," "Assumptions," "Federal Income Tax Estimator," "Actual" and "Loan Amortization." You can switch between these worksheets by clicking your mouse on the tabs. The seventh worksheet named "Introduction" has been preselected. We will begin with the "Projections" worksheet in this chapter, so click on that tab now. Use of the other worksheets will be described later.

Among other things, you will see a lot of zeros in the "Projections" worksheet. This is the worksheet you will use to input your data. You may wish to save the workbook under a different filename of your own creation now (Click on "File" at the upper left hand portion of the worksheet, then click on "Save As" when the menu appears, replace the name of the file using the name of your choice where it says "File name," select the directory on your computer where you would like to store the file where it says "Save in (top left), and then click on "Save." If you anticipate working with more than one workbook (for more than one financial plan) you will need to have separate files and file names for each plan.

Now bring up the file called "Planning (Sample)." This one is Ben and Vera Savin's program. You will note that most of the cells have been completed with data. Scroll to the right and down to see the size of the worksheet. It has exactly the same number of rows as the file you will be using. When you scroll down the left-hand side you will note that it includes a broad range of sources of funds (income) and uses of funds (expenses). This is the "cash flow statement." Below that is a detailed listing of assets (what they own) and liabilities (what they owe), known as a "net worth statement."

By scrolling to the right you will see the timeframe for the plan. It stretches out to 2070, the year when Ben will reach age 100, if he lives that long. Ben and

Vera decided to go out that far just to make sure that they would be financially secure until what sounded like almost eternity for them. You will also notice a wide column labeled "Comments" as the last column to the right. You should use this space to enter any notes that would help you to identify something you want to remember about the data you enter into any cell(s) in each row.

We will now begin a line-by-line review and discussion of the Savin's plan with comments about each line that pertain to how you will complete your own plan. All references to Ben and Vera relate to the "Planning (Sample)" file. References to your plan are to assist you in completing your own personal plan using the "Projections" worksheet on the "Planning" file.

THE STARTING POINT

If you would prefer to start your plan at the same time that we review the sample, simply enter your data on each row of your plan during the discussion. Combining the instructions in this e-Book for Ben and Vera's plan and the input for your plan for each line item should facilitate this. Alternatively, you may prefer to return to this point later to begin your plan after you have read all of the discussion and studied the sample worksheet. Either way will work effectively.

Obviously it is not possible to visually depict the entire worksheet on a page in this e-Book. We will take a section at a time so it can be viewed as you read the e-Book and will show only the columns for the first three years of the plan. The best way to learn is to refer to the entire worksheet on your computer interactively as you read. This will be necessary as you complete your own plan and when we refer to a "cell reference" on Ben and Vera's Excel® worksheet. The cell reference points to a specific cell in the worksheet by naming the column (letter) and row (number) where the cell intersects.

PRELIMINARY DATA

At the top you will find a series of columns in alphabetical order from left to right and rows in numerical order from top to bottom. The date for each calendar year begins with column B. Ben and Vera's ages are also shown for each planning year.

	A	B	C	D
1	PLANNING YEAR ENDED --------------------->	2010	2011	2012
2	AGE DURING PLANNING YEAR: BEN	40	41	42
3	AGE DURING PLANNING YEAR: VERA	39	40	41

Using the “Projections” worksheet on the “Planning” file, type your first planning year into cell B1. The rest of the years will automatically follow.

Place the cursor into cell A2. Next press the F2 key and enter your name. If you have a spouse or partner, enter his or her name similarly into cell A3.

Enter your age in cell B2 and your spouse’s or partner’s age in cell B3, if applicable. Your age(s) will automatically follow through column CD. Scroll to the right to that column now and see what age you will be at the end of the plan if you leave the worksheet configured in this way. If you would like your plan to end at an earlier age, simply place the cursor directly on the letters “CD” at the top of that column, click the mouse and hold it down. Scroll slowly to the left until you reach the last column you wish to delete, then release the mouse clicker. The columns you have selected should be highlighted. Now click “Edit” on the main menu bar and then click on “Delete” from the menu. The selected columns should disappear, leaving your worksheet with only the desired columns.

Do not delete any rows from the worksheet during the development of your plan. Reference is made to row numbers in this e-Book, and if you delete rows it will be difficult to correlate specific rows on the worksheet with the same row references in the e-Book. ***Deleting rows may in some cases affect formulas in other rows***. Moreover, even though you might not use a specific row now, you may well need it at some future date.

This would be a good time to save your personal file under a new name that you will identify with this workbook plan if you haven’t already done so.

In order to assure the achievement of your financial goals, it is critical that the assumptions you use in your plan be realistic, yet conservative. While it can be fun and enlightening when your plan is finished to try out some wild “what if” assumptions and observe the impact, the core of your plan should be based on realism and likelihood. For example, in selecting a growth rate for equity securities (stocks), you might be tempted to enter a number such as 15%, remembering that for a decade and a half in the ‘80s and ‘90s double-digit annual returns in the stock market were readily achieved. Or you might plan to use 10%, recognizing that this is the compounded annual return the stock market overall has produced over the past century. Yet, you may wish to be mindful of the fact that such investment experts as Bill Gross, Mohamed El-Erian, Warren Buffett and John Templeton have said that the compounded annual return on stocks for perhaps decades to come may only be in the range of 5% to 7%. At the very least, it might be preferable at first to make a conservative assumption until the initial draft of your plan has been completed to see where you stand globally (the forest).

> October…this is one of the peculiarly dangerous months to speculate in stocks. The others are July, September, April, November, May, March, January, June, December, August, and February.
>
> Mark Twain

No doubt changes in your plan will need to be made in a number of specific areas (the trees), and perhaps at that time you can consider alternative growth assumptions as you look at other changes as well. Some of the assumptions you will have to make are based on educated guesswork and will require adjustments when reality sets in or when improved educated guesses can be made as the future unfolds.

Just remember that all of the data in the worksheets' cells are interrelated. This means that every time you enter numerical data into any cell it affects the data in the entire worksheet and sometimes even in other worksheets within the workbook.

THE CASH FLOW STATEMENT

When we add up all of the different ways we receive money (employment income, Social Security, pensions, investment income, tax refunds, proceeds of loans we take out, cash gifts, various distributions, etc.) and then subtract all of the ways we use the money (expenses of all kinds, contributions to retirement plans and educational funds, personal investments, debt repayment, etc.) we are creating a cash flow statement. It is more than a mere budget, especially when we program it out for the rest of our lives, because it will tell us whether or not we will be financially self-sustaining.

GROWTH RATE ASSUMPTIONS:

Now click on the tab at the bottom labeled "Assumptions." This worksheet contains an important set of numbers that affect many different rows of data on the "Projections" worksheet. The growth assumptions are your expectations of the long-term rate of increase for "inflation" in each row, and in a few cases the rate of return on an investment. While we don't know what future inflation will be, we do have a record of past inflation. This information is available to you on the Internet by going to www.inflationdata.com. The current inflation rate is indicated on the right-hand side of the home page. Place your cursor over "Consumer Price Index" on the left-hand side of the home page and click on

"Historical CPI Data." This information will help you decide. We should also listen for the opinions of experts about future expectations.

Now enter a default average growth rate for inflation in cell reference B6 of your "Assumptions" worksheet. This will be the annual compounded growth rate by which numbers you place into the "Projections" worksheet will grow in the columns for future years. After you select a default growth rate, however, you can change the growth rate that applies to any specific row on the "Assumptions" worksheet to a different rate if desired. The default growth rate itself can also be changed at any time you choose.

THE ASSUMPTIONS WORKSHEET

The next two pages show the assumptions that Ben and Vera made for their plan. They have set 3% as their default average growth rate. This is the growth rate that will automatically apply to all data from column to column unless they choose to override a given row with a different rate. Ben and Vera chose a 3% rate, as it approximates the average annual rate of inflation they expect over their lifetimes. This global number can be changed at any time as circumstances change.

Note, for example, that in rows 14 and 15 of the "Projections" worksheet Ben's and Vera's current salaries are entered in column B. The 3% growth rate automatically causes their salaries to grow at that compounded rate in each succeeding year. Annual compounding at 3% means that their salaries for each year are projected to be 3% greater than the previous year.

A different growth rate may be entered on the "Assumptions" worksheet for any line item that applies to the "Projections" worksheet, if desired. For example, note that the growth rate for dividends has been changed to 2% in cell B10. This means that Ben and Vera are expecting the dividend yield on the companies whose stocks they own to provide an investment return of 2% compounded annually. Your own portfolio, if you own stocks, may differ significantly from that number based upon the specific stocks you own. The dividend rate you would apply would produce the amount of dividend income your currently receive. To visually see how the numbers are altered when a different rate is applied, change the rate for dividends on the "Assumptions" worksheet from 2% to 6%. Now go to the "Projections" worksheet and look at how the numbers have changed in row 10. When you do this, many other numbers change as well. This demonstrates the interactive nature of the workbook worksheets. Now go back and change the dividend growth rate to 2% as it was.

Growth Rate	
DEFAULT AVERAGE GROWTH (INFLATION) RATE:	3.0%
CASH FLOW STATEMENT	
SOURCES OF INCOME:	
TAXABLE INCOME:	
401(K)/403(B) WITHDRAWALS (FIRST INCOME)	0.0%
401(K)/403(B) WITHDRAWALS (SECOND INCOME)	0.0%
DIVIDENDS	2.0%
INCOME ON CUMULATIVE CASH FLOW	1.0%
IRA WITHDRAWALS (TRADITIONAL IRA)	0.0%
NET BUSINESS INCOME/LOSS	5.0%
SALARY/WAGES/TIPS (FIRST INCOME)	3.0%
SALARY/WAGES/TIPS (SECOND INCOME)	3.0%
SOCIAL SECURITY	3.0%
TAXABLE SECURITIES INTEREST	4.0%
VACATION PROPERTY RENTAL	3.0%
SALE OF VACATION PROPERTY	0.0%
OTHER TAXABLE SOURCE #3	3.0%
NON-TAXABLE INCOME:	
CREDIT CARD CASH ADVANCES	0.0%
EDUCATION FUND WITHDRAWALS	0.0%
EQUITY SECURITIES WITHDRAWALS	0.0%
GIFTS RECEIVED (CASH)	0.0%
IRA WITHDRAWALS (ROTH IRA)	0.0%
OTHER CONSUMER CREDIT – CASH RECEIVED	0.0%
TAXABLE FIXED INCOME SECURITIES WITHDRAWALS	0.0%
TAX EXEMPT FIXED INCOME SECURITIES WITHDRAWALS	0.0%
TAX EXEMPT INTEREST	1.5%
OTHER NON-TAXABLE SOURCE #1	3.0%
OTHER NON-TAXABLE SOURCE #2	3.0%
OTHER NON-TAXABLE SOURCE #3	3.0%

USES OF INCOME:	
NON-DISCRETIONARY EXPENSES:	
CHILD CARE	3.0%
FOOD	3.0%
HOUSEHOLD	3.0%
INCOME TAXES-FEDERAL/STATE	N/A
INSURANCE-LIFE/DISABILITY	3.0%
INSURANCE-MEDICAL/DENTAL	4.0%
INSURANCE-PROPERTY/CASUALTY	3.0%
MEDICAL/DENTAL EXPENSES (ABOVE INSURANCE)	4.0%
MORTGAGE PAYMENTS ON RESIDENCE	N/A
MORTGAGE PAYMENTS ON VACATION PROPERTY	N/A
OTHER CONSUMER CREDIT REPAYMENT	3.0%
PROPERTY TAXES	3.0%
SOC. SEC./MEDICARE TAXES (FIRST INCOME)	N/A
SOC. SEC./MEDICARE TAXES (SECOND INCOME)	N/A
UTILITIES	3.0%
VEHICLES	3.0%
OTHER NON-DISCRETIONARY EXPENSE #1	3.0%
OTHER NON-DISCRETIONARY EXPENSE #2	3.0%
OTHER NON-DISCRETIONARY EXPENSE #3	3.0%
DISCRETIONARY EXPENSES:	
401(K)/403(B) PLAN CONTRIBUTIONS (FIRST INCOME)	3.0%
401(K)/403(B) PLAN CONTRIBUTIONS (SECOND INCOME)	0.0%
CHARITABLE CONTRIBUTIONS	3.0%
CREDIT CARD REPAYMENT	3.0%
EDUCATION EXPENSES	3.0%
EDUCATION FUND CONTRIBUTIONS	0.0%
ENTERTAINMENT	3.0%
EQUITY SECURITIES PURCHASES	0.0%
GIFTS FOR OTHERS	3.0%
IRA CONTRIBUTIONS (ROTH IRA)	3.0%
IRA CONTRIBUTIONS (TRADITIONAL IRA)	0.0%
MISCELLANEOUS	3.0%
TAXABLE FIXED INCOME SECURITIES PURCHASES	0.0%
TAX EXEMPT FIXED INCOME SECURITIES PURCHASES	0.0%
TRAVEL/VACATIONS	3.0%
VEHICLE REPLACEMENT FUND CONTRIBUTIONS	1.0%
OTHER DISCRETIONARY EXPENSE #1	3.0%
OTHER DISCRETIONARY EXPENSE #2	3.0%
OTHER DISCRETIONARY EXPENSE #3	3.0%
SOCIAL SECURITY/MEDICARE DEDUCTIONS:	
AMOUNT OF INCOME SUBJECT TO SOCIAL SECURITY	$106,800
% DEDUCTION FOR SOCIAL SECURITY (NOT SELF-EMPLOYED)	6.2%
% DEDUCTION FOR MEDICARE (NOT SELF-EMPLOYED)	1.45%
401(K) PLAN CONTRIBUTIONS BY COMPANY (ON ROW 8)	3.0%
401(K) PLAN CONTRIBUTIONS BY COMPANY (ON ROW 9)	0.0%

You will note on the "Assumptions" worksheet that there are a number of comments in column C that may be of help in determining when you want to apply a different growth rate than the default average growth rate. There may be many reasons why you would want to do this for some rows. For example, if you scroll to the right on row 8 of the "Projections" worksheet you will see that Ben plans to withdraw a *fixed* amount from his 401(K) plan when his retirement begins. That is why he changed the default growth rate to 0% for this line item on the "Assumptions" worksheet. If he had left in the default growth rate, the amount of his projected withdrawals would be increased by 3% annually.

In the case of taxable securities interest on row 17, this is the actual overall rate of interest that is being earned on the asset in row 92 (taxable fixed income securities). We will be discussing the details of each line item shortly, so don't be concerned if this isn't too clear at this point.

For medical/dental expenses in row 48, Ben and Vera applied a 4% growth rate on the "Assumptions" worksheet, as these expenses have typically increased by more than the rate of consumer inflation.

Also note that the "Assumptions" worksheet contains data about Social Security and Medicare deductions (rows 133-135). This data assures that the amounts you pay for Social Security and Medicare are properly calculated on the "Projections" worksheet. Currently the maximum amount of wages per employee that is subject to Social Security withholding is $106,800 and it is taxed at a rate of 6.2%. The rate of withholding for Medicare is 1.45% on all wages. These three numbers may change from time to time, and you can update the "Assumptions" worksheet by entering the new numbers whenever they do to assure accurate calculations.

Review the comments in column C and make changes to the default growth rate in those rows for the cash flow statement where necessary to fit your needs. There will also be further discussion about growth rates of some of the individual rows later when we discuss those line items.

Do not attempt to complete growth rates on the "Assumptions" worksheet for the net worth statement (rows 89-129) now. We will deal with these in another chapter.

The more I practice, the luckier I get.

Lee Trevino (by way of Thomas Jefferson)

BEN AND VERA'S PROJECTIONS WORKSHEEET

Let's begin our review of the "Projections" worksheet by discussing the money that Ben and Vera have coming in.

SOURCES OF INCOME:

It is important to get all taxable income into a separate category, as the estimates for Federal income tax are dependent upon this for accuracy.

TAXABLE INCOME

	A	B	C	D
1	**PLANNING YEAR ENDED ----------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
5	**CASH FLOW STATEMENT**			
6	**SOURCES OF INCOME:**			
7	***TAXABLE INCOME:***			
8	401(K)/403(B) WITHDRAWALS (FIRST INCOME)	$0	$0	$0
9	401(K)/403(B) WITHDRAWALS (SECOND INCOME)	$0	$0	$0
10	DIVIDENDS	$1,200	$1,272	$1,348
11	INCOME ON CUMULATIVE CASH FLOW	$0	$4	$15
12	IRA WITHDRAWALS (TRADITIONAL IRA)	$0	$0	$0
13	NET BUSINESS INCOME/LOSS	$3,750	$3,938	$4,134
14	SALARY/WAGES/TIPS (FIRST INCOME)	$75,000	$77,250	$79,568
15	SALARY/WAGES/TIPS (SECOND INCOME)	$22,000	$22,660	$23,340
16	SOCIAL SECURITY	$0	$0	$0
17	TAXABLE SECURITIES INTEREST	$1,600	$1,600	$1,600
18	VACATION PROPERTY RENTAL	$2,400	$2,472	$2,546
19	SALE OF VACATION PROPERTY	$0	$0	$0
20	OTHER TAXABLE SOURCE #3	$0	$0	$0
21	TOTAL TAXABLE INCOME	$105,950	$109,195	$112,551

Some taxable income line items such as salaries play an important role in current planning, whereas others (Social Security, 401(K)/403(B) withdrawals and IRA withdrawals) will typically not come into play for most planners until later years. The "Sources of Income" have been broken down into two categories – "Taxable Income" and "Non-Taxable Income" to facilitate estimating income taxes. Let's briefly discuss each line item, starting with those that are taxable income.

401(K)/403(B) WITHDRAWALS –

Ben & Vera: Ben is participating in a 401(K) plan (a tax advantaged retirement savings program offered by some for-profit organizations) through his employer, however Vera is not. Ben expects to begin taking distributions from his plan the year he retires…in 2032. The plan will grow on a tax deferred basis until then. The withdrawals will be taxable income to him at that time.

Below the sources and uses of funds statement on the "Projections" worksheet is the net worth statement. The 401(K)/403(B) withdrawal line items in rows 8 and 9 relate to other line items that are further down the worksheet under "Assets." These withdrawals are linked to the assets by the same name on rows 98 and 99. When withdrawals are made on row 8, the worksheet automatically subtracts the amount of the withdrawal from the 401(K)/403(B) asset account in row 98 (this is an example of how the worksheet is interactive). What Ben has opted to do is to liquidate the plan with equal withdrawals annually over the balance of his lifetime after he retires, under the assumption that he will live until age 100. (Note: in reality, he would normally be required to take withdrawal amounts that would be based on his actual life expectancy or faster. But who knows…by the time Ben retires, life expectancies may be that high!)

Your Plan: Using the "Projections" worksheet on the "Planning" file, there are two rows for this category in case you need them (8 and 9).

Note: if you are an employee of a not-for-profit organization (including religious, charitable, scientific, educational, and other public interest-oriented institutions such as private schools, colleges, universities, research institutions, and teaching hospitals), you should have the opportunity to set aside a portion of salary into a tax-deferred account before it is taxed, usually offering a variety of investment alternatives. This is referred to as a 403(B) plan. It is the counterpart to the 401(K) plan, but is available to employees of not-for-profit organizations, with many similarities and some differences. Income and capital gains are sheltered from taxes until the funds are withdrawn. The employee's contributions to a 403(B) plan are generally not matched by the employer as is often done in 401(K) plans.

Obviously it is not possible for you to determine how much you will withdraw in the future at this time, as the rest of the worksheet needs to be completed first to determine your cash flow needs later in life. Withdrawals from this line are one of the last items you should address after the rest of the line items in your plan have been completed. You can then enter the amount of withdrawals to help fund any deficits that may occur in cash flow (row 83). Come back to this line item after the first draft of your plan has been completed. If you decide to take a fixed withdrawal annually, you would enter the amount of the anticipated withdrawal in the cell for the first year of withdrawal and enter 0% in cell(s) B8 and B9 on the "Assumptions" worksheet. If you plan to increase the amounts withdrawn each year, enter the percentage of increase on the "Assumptions" worksheet if different from the default average growth rate. The worksheet will grow the withdrawals annually by that percentage. After making entries to rows 8 and 9, note how they affect rows 98 and 99 of the "Projections" worksheet. Changes in the cash flow statement always have an impact on the net worth statement. Keep in mind that under current regulations withdrawals following retirement can begin as early as age 59 ½ without penalty (any distributions taken earlier may be subject to a 10% penalty charge; there is, however, a provision that allows you to withdraw prior to age 59 ½ without penalty if taken in substantially equal payments for a period of at least five years. Consult your tax advisor). Withdrawals must begin by April 1 of the year following attainment of age 70 ½.

DIVIDENDS –

Ben & Vera: This was mentioned previously when we discussed the growth rate. Cell B10 is the amount of dividends currently being earned annually from their equity securities (stocks, mutual funds, Exchange Traded Funds) based upon the 2% investment return assumption.

Your Plan: First, enter the market value of equity investments you own in personal accounts, including individual stocks, mutual funds and Exchange Traded Funds, into cell B90 (we'll discuss the growth rate for this line item later). The amount of dividends from these investments should appear in cell B10. If the amount shown is not the same as your actual dividends received, change the growth rate on the "Assumptions" worksheet until it is as close as possible (you may use as many numbers after a decimal point as you like).

INCOME ON CUMULATIVE CASH FLOW –

Ben & Vera: After all of the expenses are subtracted from the income, Ben and Vera have $375 of positive cash flow at the end of the first year (cell reference B83). This amount is added to the item under "Assets" titled "Cash And Cumulative Cash Flow" (row 89), which is the line item that represents their beginning cash balance in the first plan year ($0 in their case) plus the accumulation of excess income (or deficits) each following year. The amounts in row 11 are the 1% money market investment return they entered onto the "Assumptions" worksheet for their cash flow.

<u>Your Plan</u>: This is one of the more complicated, and more important, line items on the worksheet. The line item "Income on Cumulative Cash Flow" is the investment income on accumulated cash. The amount of earnings on this accumulation is automatically computed based upon the percentage you enter into this category on the "Assumptions" worksheet. You should use a growth rate that is based on how excess funds will be invested. It is suggested that you use a money market rate of interest. As excess cash flow builds, you will have the opportunity to transfer amounts into other categories to obtain higher returns (e.g., equity investments and fixed income investments), so this rate should be a conservative number. The numbers in row 11 will be automatically calculated. If you have a negative number in any given cell in this row, it means that you have run out of cash and you will have a negative income return (in effect, interest on a loan) at a rate 3% greater than your assumed growth rate, which would be about the rate you would pay on a short-term loan.

> "I have never been in a situation where having money made it worse."
>
> Clinton Jones

IRA WITHDRAWALS (TRADITIONAL IRA) –

<u>Ben & Vera</u>: Ben and Vera's withdrawals begin in 2032. These withdrawals are linked to the asset by the same name on row 103. Withdrawals are automatically subtracted from the balance in the IRA plan. As with their 401(K) plan, they have used this as a source of cash in their retirement years.

<u>Your Plan</u>: The comments for this line item (row 12) are essentially the same as for the 401(K)/403(B) withdrawals. You will want to defer considering this line until you also look at the 401(K)/403(B) withdrawals. IRA withdrawals can also be a good funding tool for deficits in cash flow after retirement. Withdrawals can begin as early as age 59 ½ under current law without penalty and must begin by April of the year following the attainment of age 70 ½. Under some circumstances withdrawals can be made prior to age 59 ½ without penalty. Consult your tax advisor.

NET BUSINESS INCOME/LOSS –

<u>Ben & Vera</u>: As stated previously, Ben and Vera have a small home-based business. The income, less business expenses, has been entered in cell B13. Using the net figure (instead of segregating the expenses in the worksheet) is necessary to calculate income taxes later. Business expenses should not be mixed with personal expenses. The "Assumptions" worksheet shows that they are projecting their net business income will grow by 5% compounded annually (a deviation from the default growth rate).

Your Plan: If you own or plan to own a business, enter the net income or loss (income less expenses) in cell B13 if owned currently, or beginning with the column coinciding with the year in which you plan to start your business. Include only cash income and cash expenses. Do not include non-cash items such as depreciation or home office deductions here. If you would prefer, enter specific dollar amounts for the first few years and the applied growth rate will then automatically take over in later years.

SALARY/WAGES/TIPS –

Ben & Vera: This is the gross (total) amount of their annual earnings before any deductions, as the deductions are included, along with other expenses, in the expense categories further down on the worksheet.

Your Plan: There are two rows (14 and 15) for two salaries (leave row 15 blank if not needed). Enter current gross salaries (do not subtract any deductions) in column B. Whether you left the growth rate for these line items at the default rate or set a different rate, if a big promotion or job change is expected in the future you can simply enter the anticipated salary in the appropriate cell in either row. The new salary will continue to grow from there at the designated growth rate.

"I'm living so far beyond my income that we may almost be said to be living apart."

ee cummings

SOCIAL SECURITY –

Ben & Vera: Even if you are not currently receiving Social Security, this line item is important, as you will receive it some day. By scrolling to the right on row 16, you will see that Ben plans to start taking his Social Security benefits when he reaches age 62. Vera's benefit starts the next year (the benefits are combined for both of them on this row). They have included the amounts they expect to receive at that time for early retirement benefits. The benefits are set to grow at the default rate of 3% annually, as Social Security benefit increases are tied to the rate of consumer inflation.

Your Plan: The exact amount of your Social Security benefits will be established at the time of your retirement and will be dependent on the amount of your reported earnings over your career and the age at which you begin receiving benefits (age 62 at the earliest). While the entire system's future solvency is a subject of debate, Congress will presumably continue to tax the public sufficiently to be able to provide benefits for future generations. All persons who make Social Security contributions should receive an annual report called "Your Social Security Statement" in the mail. It will give you a close estimate of what your benefits will be, depending on your estimated future earnings and the date you select for retirement. If you do not receive your copy of this statement, go online to the Web site entitled www.socialsecurity.gov/mystatement. There is a good deal of information about the statement on that site. Or you can call any Social Security office at 1-800-772-1213 or write to Social Security Administration, Office of Earnings Operations, P.O. Box 33026, Baltimore, MD 21290-3026. For purposes of this plan, the assumption is made that Social Security benefits will be taxable. They are taxed today on a graduated basis up to the entire amount, depending on the taxpayer's other income. It is likely that benefits will be taxed even more heavily in the future for those who would not currently pay tax on all of their benefits, and that is why they have been fully included in taxable income for planning purposes here. Enter in row 16 the estimated annual Social Security benefit you (and your spouse, if applicable) will receive beginning with the column containing the date of your planned retirement. The growth rate should be left at your default rate.

TAXABLE SECURITIES INTEREST –

Ben & Vera: This is the actual current amount of interest being paid on the taxable fixed income investments listed as an asset in the net worth statement on row 91. As with "Dividends" and "Income On Cash And Accumulated Cash Flow," the growth rate on the "Assumptions" worksheet is the actual rate of return (in this case, interest rate) they are receiving (4%).

Your Plan: Amounts in this row are automatically calculated and relate to the taxable fixed income securities category on row 91 in the net worth statement. This would include Treasury securities, corporate bonds and bank certificates of deposit. It could also include mortgages held as an investment…or you could segregate those as a separate "Other Taxable Source" line item later if you would prefer. Enter the amount of taxable fixed income securities you own in cell B91.

VACATION PROPERTY RENTAL –

Ben & Vera: Ben and Vera own a vacation house, as you can see on row 106 of the Net Worth Statement. It is primarily for their own use, however they do rent it out on occasion. The amount on line 18 is the net rental income they estimate after any associated expenses. They have used one of the three "Other Taxable Source" rows for this income, changing the name in cell A18.

Your Plan: If you have a vacation or other rental property that produces income, enter the net income (total income less total expenses) for any such property, customizing one of the "Other Taxable Source" rows for this purpose. You can also customize an "Other Long-Term Asset" row for this purpose if needed.

SALE OF VACATION PROPERTY –

Ben & Vera: They have used another of the "Other Taxable Source" rows for the eventual sale of their vacation property when Ben reaches age 80.

OTHER TAXABLE SOURCES –

Your Plan: You are provided with three lines that can be named and used for taxable income that is specific to you. This might be for such other things as pensions, alimony received, rental income, gambling winnings, unemployment compensation, consulting income…anything producing taxable income that is not listed in one of the other categories. This income may or may not be tied to an asset that is listed in the net worth statement under "Other Current Assets" or "Other Long-Term Assets."

> "All I ask is the chance to prove that money can't make me happy."
>
> Spike Milligan

TOTAL TAXABLE INCOME –

Ben & Vera: This is the sum of all of the taxable income items in this column. It is an important number, as we will see, in estimating your Federal income tax.

Your Plan: The total for your plan will be automatically calculated.

Now we will turn to sources of income that are usually not taxed.

CREDIT CARD CASH ADVANCES –

Ben & Vera: Not utilized.

Your Plan: Loans, including cash advances from credit cards, are a source of funds to support cash needs at times. While this is normally not a typical source that people look to for cash, in a very low interest rate environment many people are offered the opportunity to borrow money from credit card companies at extremely low rates. Credit card advances, if any, should be entered on row 23. The debt will be automatically added as a liability on row 117.

NON-TAXABLE INCOME

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
22	***NON-TAXABLE INCOME:***			
23	CREDIT CARD ADVANCES	$0	$0	$0
24	EDUCATION FUND WITHDRAWALS	$0	$0	$0
25	EQUITY SECURITIES WITHDRAWALS	$0	$0	$0
26	GIFTS RECEIVED (CASH)	$3,000	$3,000	$3,000
27	IRA WITHDRAWALS (ROTH IRA)	$0	$0	$0
28	TAXABLE FIXED INCOME SECURITIES WITHDRAWALS	$0	$0	$0
29	OTHER CONSUMER CREDIT – CASH RECEIVED	$0	$0	$0
30	TAX EXEMPT FIXED INCOME SECURITIES WITHDRAWALS	$0	$0	$0
31	TAX EXEMPT INTEREST	$0	$0	$0
32	OTHER NON-TAXABLE SOURCE #1	$0	$0	$0
33	OTHER NON-TAXABLE SOURCE #2	$0	$0	$0
34	OTHER NON-TAXABLE SOURCE #3	$0	$0	$0
35	TOTAL NON-TAXABLE INCOME	$3,000	$3,000	$3,000
36	**TOTAL SOURCES OF INCOME**	$108,950	$112,195	$115,551

EDUCATION FUND WITHDRAWALS –

Ben & Vera: Withdrawals for education (in this case their son's college expenses) also relate to a specific asset…the education fund Ben and Vera have established that is listed on row 100. By scrolling to the right on row 24 you will note that

$10,000 annually is budgeted for four consecutive years beginning in 2024 when their son will likely start college.

<u>Your Plan</u>: If you plan to establish an education fund, whether it be for children, grandchildren, yourself or others, there are four line items that are affected: row 24 (education fund withdrawals), row 65 (education expenses), row 66 (education fund contributions), and row 100 (education fund). Obviously the education fund is created to meet an anticipated future educational expense. For the years in which those future expenses are expected to occur, enter the projected amounts needed in the appropriate column of row 24. These withdrawals will automatically be deducted from the education fund asset in row 100. Be sure that withdrawals from the education fund do not bring the balance in the fund on row 100 below zero. If it does, adjustments in one of these line items will need to be made. The assumption is made that the income or other investment return from the education fund will not be taxable to you. There are many ways to structure the fund to cause investment returns from education funds to be taxed to the recipient rather than to you or not taxed at all. Such methods include Coverdell plans (perhaps the preferred method of saving for up to $2,000 annually), state-backed 529 college savings plans (best done in your own state; make sure that management costs are reasonable), gifts for the benefit of students under the Uniform Gifts To Minors Act, gifts into trust, etc. (see "Suggested Reading" in the Appendix). Much information is also available on www.savingforcollege.com. Consult your tax advisor if needed for the applicability of any such program to your personal situation.

EQUITY SECURITIES WITHDRAWALS –

<u>Ben & Vera</u>: Withdrawals can be made from equity securities by entering amounts into row 25, related to the asset in row 90, to cover deficits in cash flow. Ben and Vera plan to withdraw $25,000 per year from equity investments beginning in 2042, with $50,000 being withdrawn starting in 2068. As they will have accumulated a sizeable balance in their equity investments by then, this is a logical source to help them balance their cash flow needs at that time of their lives.

<u>Your Plan</u>: Withdrawals (sales) of equity securities (row 25) is associated with two other rows: row 10 (dividends), which is the income paid by equity securities to shareholders, and row 90 (equity securities), the asset in the net worth statement. As with IRA withdrawals and taxable/non-taxable fixed income securities, if you have equity securities, selling some or all of them is another source of funds to create positive cash flow by covering deficits. Reductions in row 25 will automatically reduce row 90 by the same amount. The growth rate for dividends on the "Assumptions" worksheet may need to be changed if the dividend yield on the remaining securities would be different from what it was previously. Withdrawals of equity securities should also be considered as a source of funds in order to create positive cash flow if expense reductions and other sources of income are insufficient. Equity security withdrawals are included in the non-taxable category, although there may be some tax consequences, depending on the cost basis of the underlying securities compared with the current market value when sold. Under current law, taxes applied to securities with a long-term gain (over one year) receive favorable tax treatment and are taxed at a maximum rate of 15%. Therefore, the Federal and state taxes estimated in row 43, which will be discussed in detail later, may be somewhat understated in years when equity security withdrawals are made.

GIFTS RECEIVED –

Ben & Vera: Ben and Vera receive $3,000 annually as holiday gifts from Vera's parents, which is listed in row 26. They also are including a potential inheritance in their plan of $250,000 in 2031.

Your Plan: If you expect to receive a cash gift in a given year, enter it in the appropriate column in row 26. It will be added as a source of income and will affect the cash flow for that year. Non-cash gifts would affect an asset line item, so do not use row 26, as this is for cash gifts only. For non-cash gifts, make an adjustment to the appropriate line item in the net worth statement that is affected by the gift. For example, if you expect to receive a gift of $25,000 of stocks in the third year of your plan, you would go to cell D90. Simply press the F2 key and at the end of the formula type in +25000. This will add $25,000 to the balance in equity securities, but will not affect the cash flow (other than future dividends from the addition). You should add a comment in the last column about an addition such as this for future reference. Note that you might need to adjust the growth rate assumption for dividends on the "Assumptions" worksheet if such an addition would alter your dividend return rate. Gifts that would fall into other asset categories would be handled similarly.

"Money is better than poverty, if only for financial reasons."

Woody Allen

IRA WITHDRAWALS (ROTH IRA) –

Ben & Vera: They do not have a Roth IRA.

Your Plan: Contributions to a Roth IRA are not tax deductible, however the growth and income in the account, as well as the original principal investment, are not taxed when withdrawals are made. If you plan to establish a Roth IRA, you should be able to take tax-free withdrawals at any time, provided the account has been open for at least five years. There are three line items associated with this category: row 27 (withdrawals), row 70 (Roth IRA contributions), and row 102 (Roth IRA, the asset). The Roth IRA can be a good source of funds to cover cash flow deficits later in life, especially since the distributions are not treated as taxable income.

OTHER CONSUMER CREDIT – CASH RECEIVED –

Ben & Vera: Not utilized.

Your Plan: Consumer loans are another potential source of funds to support cash needs at times, especially for purchasing automobiles, home furnishings, home improvements, etc. Cash received from new consumer loans other than credit card advances should be entered on row 28. The debt will be automatically entered as a liability on row 119.

"A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain. "

Robert Frost

TAXABLE FIXED INCOME SECURITIES WITHDRAWALS –

Ben & Vera: There are no liquidations of securities in this category planned.

Your Plan: This line item (row 29) is associated with two other rows: row 17 (taxable interest), which is the income from taxable fixed income securities, and row 91 (taxable fixed income securities), which is the asset in the net worth statement. If you have taxable fixed income securities, selling some or all of them (withdrawals) can be another source of funds to cover cash deficits. Any reductions in row 29 will automatically reduce row 91 by the same amount. If reductions are made, row 17 will be automatically recalculated to reflect the reduced amount of taxable interest earned.

TAX EXEMPT FIXED INCOME SECURITIES WITHDRAWALS –

Ben & Vera: They do not plan to own any tax exempt securities until 2032, when they will have enough excess cash flow to purchase some of them. There are no planned liquidations of securities in this category.

Your Plan: This line item (row 30) is associated with two other rows: row 31 (tax exempt interest), which is the income from tax exempt fixed income securities, and row 92 (tax exempt fixed income securities), which is the asset in the net worth statement. If you have tax exempt fixed income securities, selling some or all of them (withdrawals) can be another source of funds to cover cash deficits. Any reductions in row 30 will automatically reduce row 92 by the same amount. If reductions are made, row 31 will be automatically recalculated to reflect the reduced amount of taxable interest earned.

TAX EXEMPT INTEREST –

Ben & Vera: As stated previously, they do not initially own tax exempt securities, so there is no interest entered into this category until purchases are made in later years.

Your Plan: Amounts in this row are automatically calculated based on the growth rate entered on the "Assumptions" worksheet. They relate to the tax exempt fixed income securities category on row 92 in the net worth statement. This would include tax exempt income on municipal bonds and any other tax exempt securities. Enter the amount of tax exempt fixed income securities you own in cell B92.

OTHER NON-TAXABLE SOURCES –

Your Plan: Three additional lines are provided that can be named and used for non-taxable income that is specific to you. This might be for anything producing a non-taxable source of funds that is not listed in one of the other categories. Examples might be other loans from banks or relatives. If you were to take out such a loan, you would need to list the loan as other short-term debt (if the loan would need to be repaid within one year) or other long-term debt (if the loan would be repaid in over one year) in the liabilities section of the net worth statement. Note that for one time items such as proceeds received from a loan, for the year following receipt of the funds a 0 must be entered or the amount of the loan will be entered as a new loan in each of the following years.

Be sure to enter growth rates on the "Assumptions" worksheet, if different than the default average rate, for any such "other" items.

TOTAL NON-TAXABLE INCOME –

Ben & Vera: This is the sum of all of the non-taxable income items in this column. It is separated so that it will not be included when estimating income taxes.

Your Plan: The total for your plan will be automatically calculated.

TOTAL SOURCES OF INCOME –

Ben & Vera: This combines the totals of both taxable and non-taxable income.

Your Plan: The total for your plan will be automatically calculated.

USES OF INCOME:

Next we will focus on all of the uses that Ben and Vera make of their income sources to see if their income now and in the future will sustain them, given their current and projected expenses. These uses are separated into two categories: (1) non-discretionary expenses (those which are viewed as mandatory and over which they have little or no control), and (2) discretionary (those expenses that can largely be controlled or which may be more readily reduced or eliminated if necessary).

Let's continue with the non-discretionary expenses.

"A budget is just a method of worrying *before* you spend money, as well as *afterward*."

Anonymous

NON-DISCRETIONARY EXPENSES:

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
38	**USES OF INCOME:**			
39	***NON-DISCRETIONARY EXPENSES:***			
40	CHILD CARE	$5,000	$5,150	$5,305
41	FOOD	$4,800	$4,944	$5,092
42	HOUSEHOLD	$3,000	$3,090	$3,183
43	INCOME TAXES-FEDERAL/STATE	$18,875	$19,453	$20,051
44	INSURANCE-LIFE/DISABILITY	$1,200	$1,236	$1,273
45	INSURANCE-MEDICAL/DENTAL	$4,500	$4,680	$4,867
46	INSURANCE-PROPERTY/CASUALTY	$2,000	$2,060	$2,122
47	MEDICAL/DENTAL EXPENSES (ABOVE INSURANCE)	$2,600	$2,704	$2,812
48	MORTGAGE PAYMENTS ON RESIDENCE	$15,400	$15,400	$15,400
49	MORTGAGE PAYMENTS ON VACATION PROPERTY	$7,200	$7,200	$7,200
50	OTHER CONSUMER CREDIT OBLIGATIONS REPAYMENT	$0	$0	$0
51	PROPERTY TAXES	$4,200	$4,326	$4,456
52	SOC. SEC./MEDICARE TAXES (FIRST INCOME)	$5,738	$5,910	$6,087
53	SOC. SEC./MEDICARE TAXES (SECOND INCOME)	$1,683	$1,733	$1,785
54	UTILITIES	$7,500	$7,725	$7,957
55	VEHICLES	$4,000	$4,120	$4,244
56	OTHER NON-DISCRETIONARY EXPENSE #1	$0	$0	$0
57	OTHER NON-DISCRETIONARY EXPENSE #2	$0	$0	$0
58	OTHER NON-DISCRETIONARY EXPENSE #3	$0	$0	$0
59	TOTAL NON-DISCRETIONARY EXPENSES	$87,695	$89,731	$91,833

FOOD –

Ben & Vera: Self-explanatory. Their food expense is primarily for food at the grocery store, but also includes restaurant expenses.

Your Plan: Row 41 would obviously include food purchased at grocery stores, but could also include expenses for restaurants if you eat out frequently. Some users may feel that eating out is a discretionary expense and prefer to create a separate line item for it under that category. The choice is yours to determine what is most meaningful for you.

HOUSEHOLD –

Ben & Vera: Line 42 includes their expenses required to maintain their home and for routine improvements.

Your Plan: This should not include payments on any mortgage(s) you have on a home or utility expenses, as there are separate line items for them. Household expenses would typically cover repairs, maintenance, yard work and other expenses that you would consider as requirements to maintain the home or improve it and perhaps even include replacement of some household items.

INCOME TAXES-FEDERAL/STATE –

Ben & Vera: As part of the "Planning" workbook file you will find a tab at the bottom of the worksheet called "Federal Income Tax Estimator." This worksheet will assist in making quick estimates of Federal tax liability. The worksheet shown on page 43 is how Ben and Vera's tax estimator worksheet turned out. The resulting tax of $18,875 for their plan's first year was automatically placed in cell B43. All of the rest of the columns on row 43 of the "Projections" worksheet beginning with column C are completed based upon the proportion of future taxable income compared with the initial base year.

Your Plan: The "Federal Income Tax Estimator" worksheet will assist you in making quick estimates of Federal tax liability for the first year of your plan. If you do your own tax returns, this will be simple. If a preparer does them for you, get your copy of your last Federal and state returns. Simply enter the projected income and deduction items for this tax year that are on the worksheet, using the appropriate column (single or married). The standard deduction is automatically computed on row 20 when you enter the number of exemptions, so if you itemize deductions, replace the standard deduction amount with your estimated itemized deductions.

Note that this estimator is only for Federal income tax. You need to separately estimate your state tax and enter that amount in cell D29 of the tax estimator (C29 for single taxpayers). Since each state has its own tax computation methodology, it is not possible to provide for this in the worksheet. Just estimate your state tax liability based on your past tax returns and make an adjustment to take into consideration any change in your taxable income from the previous year.

> Dear Internal Revenue Service:
>
> I haven't been able to sleep because of all the income I didn't report on my tax return, so I'm enclosing a cashier's check. If I still can't sleep, I'll send you the rest.
>
> Anonymous

	A	B	C	D
1			SINGLE	MARRIED
2			TAXPAYER	JOINT
3	**FEDERAL INCOME TAX ESTIMATOR**		RETURN	RETURN
4				
5	WAGES, SALARIES, TIPS		$0	$97,000
6	TAXABLE INTEREST INCOME		$0	$1,850
7	STATE TAX REFUNDS		$0	$200
8	ALIMONY RECEIVED		$0	$0
9	CAPITAL GAIN (SHORT-TERM--UNDER 12 MONTHS)		$0	$0
10	BUSINESS INCOME (LOSS)		$0	$3,750
11	OTHER TAXABLE INCOME		$0	$2,400
12	CAPITAL GAIN (LONG-TERM--OVER 12 MONTHS); 15% RATE		$0	$0
13	DIVIDENDS; 15% RATE		$0	$1,200
14	TOTAL INCOME		$0	$106,400
15				
16	IRA DEDUCTION		$0	$0
17	ALIMONY PAID		$0	$0
18	OTHER ADJUSTMENTS TO INCOME		$0	$0
19	EXEMPTIONS	3	$0	$9,150
20	STANDARD OR ITEMIZED DEDUCTIONS		$0	$9,500
21	TOTAL ADJUSTMENTS, DEDUCTIONS AND EXEMPTIONS		$0	$18,650
22				
23	TAXABLE INCOME:		$0	$87,750
24	TAXABLE AT ORDINARY RATE		$0	$86,550
25	TAXABLE AT LOWER RATE		$0	$1,200
26				
27	FEDERAL TAX		$0	$15,438
28				
29	STATE TAX ESTIMATE (ENTER THE AMOUNT YOU		$0	$3,437
30	ESTIMATE YOUR STATE TAX WILL BE IN THE			
31	APPROPRIATE COLUMN UNDER THE FEDERAL TAX)			
32				
33	**TOTAL ESTIMATED TAX LIABILITY**		$0	$18,875

That is all you need to do. The "Federal Tax Estimator" worksheet computes the estimated tax, which is then automatically entered into cell reference B43 of the "Projections" worksheet, as that cell is linked to cell D33 of the tax estimator worksheet within this workbook (C33 for single taxpayers).

All of the rest of the columns on row 43 on the "Projections" worksheet beginning with column C are completed based upon the proportion of future taxable income compared with the base year you complete using the tax worksheet. While this is not as accurate as a separate use of the "Federal Income Tax Estimator" worksheet for each tax year of your plan, few people would be willing to take the time to use the tax estimator worksheet to prepare figures for each tax year. The proportional assessment of tax obligations is therefore a second best choice. Obviously if you are willing to make use of the tax worksheet for each tax year and enter the numbers in each column beginning in cell C43, the accuracy of your numbers will be improved.

Please keep in mind that this computation of Federal income tax liability is an approximation and will not ever be exact, although hopefully it should be close. There are certain line items in the “Sources of Income” category that cannot be wholly determined to be either taxable or non-taxable. Also, using a proportional method of calculating future taxes does not differentiate between tax preferred items such as long-term capital gains on the sale of capital assets and dividend income (both of which under current regulations are subject to a maximum tax rate of 15%).

Inaccuracies caused by the proportional method of calculating income taxes for future years can be caused by such items as the following:

Description: Sale of real estate

Problem: Since the property would have a cost basis that is not taxable, only the net sales price less the cost basis should be subject to tax, and at a long-term capital gain rate if held for more than one year.

Description: Sale of fixed income securities and especially equity securities.

Problem: The plan has no way of knowing whether proceeds of sale of these securities resulted in a gain or a loss, what percentage of the sale proceeds represented gain or loss and what percentage represented cost basis. Also, it is possible that such sales could result in short-term capital gain or loss, which would have different tax treatment that could not be picked up by the proportional method used here to calculate taxes in future years.

Description: Dividends on equity securities

Problem: Should the mix change between dividend income (which currently has a preferred tax rate) and other types of income due to changes in your investment portfolio, the use of proportional estimates of future tax liability will not take this into consideration and will therefore either underestimate or overestimate tax liability.

Description: Amortization of Mortgages

Problem: As mortgage payments are made over time, the amount of the payments attributable to principal repayment increases and the amount for interest decreases. Proportional estimates of future tax do not take this into consideration. Since less of the payments will be going toward interest, the tax will tend to be a bit underestimated if you itemize deductions, since there will be less tax deductible interest.

Suffice it to say that a proportional estimate of future tax liability is an inexact science, but should be adequate for purposes of your financial plan. Using the "Federal Income Tax Estimator" worksheet to calculate each tax year of your plan, while providing greater accuracy, may well be an example of the law of diminishing returns in terms of the time and effort required versus the benefit, although it can result in more precision once your plan is finalized and if you do not anticipate many changes being made to it.

"The hardest thing in the world to understand is income tax."

Albert Einstein

INSURANCE-LIFE/DISABILITY –

Ben & Vera: Self-explanatory. It includes the cost of participating in employer programs as well as individual policies.

Your Plan: Include the cost of group (employer) insurance as well as personal policies.

INSURANCE-MEDICAL/DENTAL –

Ben & Vera: Self-explanatory. It includes the cost of participating in employer programs as well as individual policies. Note that a 4% growth rate has been assigned.

Your Plan: Include any deductions for your share of the cost of employer provided coverage as well as the cost of any individual policies. A higher growth rate than the default rate may be in order due to rapidly rising medical costs.

INSURANCE-PROPERTY/CASUALTY –

Ben & Vera: Includes all insurance on real estate, umbrella (excess liability) coverage and vehicle insurance (Ben and Vera chose to place it here).

<u>Your Plan</u>: Include all real estate insurance, umbrella (excess liability) coverage and vehicle insurance (unless you choose to place it elsewhere) in row 46.

MEDICAL/DENTAL EXPENSES (ABOVE INSURANCE) –

<u>Ben & Vera:</u> Note on row 47 that Ben and Vera's expenses are expected to decline to $2,000 in 2035 and then grow at the default rate when Ben reaches age 65 and becomes eligible for Medicare (Vera will be eligible the following year). Ben will still have his company insurance, which will then be supplemental to Medicare. They have entered a growth rate of 4% for this line item on the "Assumptions" worksheet.

<u>Your Plan</u>: This is an estimate of the annual medical and dental expenses you expect to pay that will not be covered by insurance (including deductibles and co-payments). Adjustments should be made as you reach age 65 and begin Medicare coverage. A higher growth rate for this item may be in order, as medical costs have traditionally risen faster than consumer prices in general.

MORTGAGE PAYMENTS ON RESIDENCE –

<u>Ben & Vera</u>: Principal and interest payments only. Taxes and insurance are included in other categories.

<u>Your Plan</u>: You should include the principal and interest components of your house payment in row 48. If your payment also includes an escrow for taxes and insurance, it would be preferable to separate these amounts out and place them into property taxes and insurance-property/casualty unless you would prefer to include them in this category. For your convenience, the e-mail we send to you also contains an Excel® file called "Loan Amortization." This file can be used to prepare an amortization schedule for a mortgage loan or any loan that has a fixed interest rate and is self-amortizing using simple interest, as are most mortgage and installment loans. The file can be very helpful in determining what your payments would be and your building of equity if you refinance the mortgage on your home or are considering taking out other loans.

MORTGAGE PAYMENTS ON VACATION PROPERTY –

<u>Ben & Vera</u>: Amounts on row 49 are the principal and interest payments on the loan for their vacation property. This property is listed as an asset in their net worth statement and the loan is listed as a liability.

<u>Your Plan</u>: If you own a vacation property or other real estate, enter the principal and interest payments on row 49. As with their residence, you may wish to include property taxes and insurance in other lines items rather than on row 49.

OTHER CONSUMER CREDIT REPAYMENTS –

<u>Ben & Vera</u>: They have no other consumer credit.

<u>Your Plan</u>: Row 50 should include the total payments on other debt, such as installment loans and single-payment loans. Home equity loan or line of credit payments could be included in this category as well, or you can include them under "Mortgage Payments on Residence."

PROPERTY TAXES –

<u>Ben & Vera</u>: Taxes on Ben and Vera's home and vacation property.

<u>Your Plan</u>: This should normally include taxes on real property, such as your home, second home, vacation property, and any other real estate. Taxes on vehicles is best included with vehicle expense.

SOC.SEC./MEDICARE TAXES (FIRST INCOME & SECOND INCOME) –

<u>Ben & Vera</u>: The amount of these taxes is automatically calculated on rows 52 and 53 for each income based upon the employee rate.

<u>Your Plan</u>: The cells in rows 52 and 53 will automatically calculate the correct amount of these taxes on salaries entered into rows 8 and 9. Taxes are currently as follows:

- Employee: 7.65% (6.2% Social Security on the first $106,800 of income; 1.45% Medicare on all wages)
- Self-employed: 15.30% (12.4% Social Security on the first $106,800 of taxable income; 2.9% Medicare on entire taxable income).

If you are self-employed you will need to compute the amount owed based on net earnings projections and enter that amount on row 52 (and 53, if necessary).

If the applicable amount of income subject to tax or the rates change, be sure to update the information in cells B133-B135 on the "Assumptions" worksheet.

UTILITIES –

<u>Ben & Vera</u>: All utilities, including cable and Internet service, have been added to this line item.

<u>Your Plan</u>: Utilities include gas, electricity, telephone (local and long distance), water, cell phone, refuse hauling, sewer use fees, cable and Internet in row 54.

VEHICLES –

<u>Ben & Vera</u>: They have included such things as gasoline, repairs, insurance and other expenses they specifically incur on their vehicles.

<u>Your Plan</u>: This category is an example of how one user may choose to enter the data differently than another. If you have a vehicle loan, you could include the payments here, or you could choose to create a separate category using one of the "Other Non-Discretionary Expense" rows (e.g., naming it "Vehicle Loan Payments"). By the way, vehicle expense is included in the non-discretionary category because vehicles are usually needed for employment. If you own any vehicles not required for employment, you may wish to break expenses for them out separately into a discretionary expense category. You should use the categories so that they have the most meaning for you. For example, you might choose to combine vehicle insurance with other insurance expenses rather than put them in with vehicle expenses. The choice is yours. Consistency is what is important. It is suggested that you make notes about what is included in any given category where possible confusion might result. Use the column labeled "Comments" that follows the last data column on the right-hand side of the worksheet for this purpose.

OTHER NON-DISCRETIONARY EXPENSES –

<u>Ben & Vera</u>: Not used in their plan.

<u>Your Plan</u>: If you have non-discretionary expenses that do not fit well into any other category (e.g., alimony payable), or if you wish to segregate a specific expense item so you can watch it more closely, you can include it under one of the three rows available here. Simply type in the name of the expense in column A using one of rows 56-58 and enter the estimated expenses in the same row.

Be sure to enter growth rates on the "Assumptions" worksheet, if different than the default average rate, for any such "other" items. For example, alimony would typically be paid at a fixed amount, so a 0% growth rate should be entered.

TOTAL NON-DISCRETIONARY EXPENSES –

Ben & Vera: This represents the total of all of the standard and unique expenses that have been identified as non-discretionary, non-controllable or mandatory.

Your Plan: The total for your plan will be automatically calculated.

DISCRETIONARY EXPENSES:

Discretionary expenses are those over which we exercise at least some if not total control. It is important to segregate these expenses, because if Ben and Vera, or you, wish to try to reduce expenses, this is the first place to look.

"A bargain is something you can't use at a price you can't resist."

Franklin Jones

401(K)/403(B) PLAN CONTRIBUTIONS –

Ben & Vera: These contributions are made to the plan that is listed on row 98. The beginning balance of the plan is $68,500. Ben's contributions to the plan on row 61 are computed automatically by applying the percentage in cell B61 of the "Assumptions" worksheet, as Ben contributes 3% of his salary. His company also makes contributions listed on row 144, which we will discuss later.

Your Plan: These contributions are normally made by payroll deduction at a fixed percentage rate. Therefore it is important that you enter the percentage of your salary you will be contributing into cell B61 on the "Assumptions" worksheet. Rows 61 and 62 should both designate a percentage if there are two salaries and if both participate in a 401(K)/403(B) plan, otherwise 0% should be entered if not participating. Contributions on rows 61 and 62 will be added automatically to rows 98 and 99 in the net worth statement, as will any amount added later to rows 144 and 145 for company contributions. In the event you do not make fixed percentage contributions to the plan(s), individual amounts can be entered on row 61 and 62 of the "Projections" worksheet as appropriate.

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
60	***DISCRETIONARY EXPENSES:***			
61	401(K)/403(B) PLAN CONTRIBUTIONS (FIRST INCOME)	$2,250	$2,318	$2,387
62	401(K)/403(B) PLAN CONTRIBUTIONS (SECOND INCOME)	$0	$0	$0
63	CHARITABLE CONTRIBUTIONS	$2,400	$2,472	$2,546
64	CREDIT CARD REPAYMENT	$0	$0	$0
65	EDUCATION EXPENSES	$0	$0	$0
66	EDUCATION FUND CONTRIBUTIONS	$1,230	$1,230	$1,230
67	ENTERTAINMENT	$1,200	$1,236	$1,273
68	EQUITY SECURITIES PURCHASES	$0	$0	$0
69	GIFTS FOR OTHERS	$3,000	$3,090	$3,183
70	IRA CONTRIBUTIONS (ROTH IRA)	$0	$0	$0
71	IRA CONTRIBUTIONS (TRADITIONAL IRA)	$2,000	$2,000	$2,000
72	MISCELLANEOUS	$1,800	$1,854	$1,910
73	TAXABLE FIXED INCOME SECURITIES PURCHASES	$0	$0	$0
74	TAX EXEMPT FIXED INCOME SECURITIES PURCHASES	$0	$0	$0
75	TRAVEL/VACATIONS	$2,000	$2,060	$2,122
76	VEHICLE REPLACEMENT FUND CONTRIBUTIONS	$5,000	$5,050	$5,101
77	OTHER DISCRETIONARY EXPENSE #1	$0	$0	$0
78	OTHER DISCRETIONARY EXPENSE #2	$0	$0	$0
79	OTHER DISCRETIONARY EXPENSE #3	$0	$0	$0
80	TOTAL DISCRETIONARY EXPENSES	$20,880	$21,310	$21,751
81	**TOTAL USES OF INCOME**	$108,575	$111,040	$113,584
82				
83	**POSITIVE/NEGATIVE CASH FLOW**	$375	$1,155	$1,968

CHARITABLE CONTRIBUTIONS –

Ben & Vera: Self-explanatory. Include all cash contributions.

Your Plan: Includes all cash contributions to churches, United Way and other charitable organizations.

CREDIT CARD REPAYMENT –

Ben & Vera: This is for repayment of debt. They pay off all charges each month when their bills arrive, so this does not apply to them.

Your Plan: If applicable, row 64 should be used for payments of interest and principal that you would make on financed credit card obligations that are not immediately paid off in the regular course of use.

EDUCATION EXPENSES –

Ben & Vera: On row 65 is their projection of the estimated expenses for their son's college/university costs for the years in which they will be incurred. In Ben and Vera's case, they are projecting $10,000 per year for four years beginning in 2024. You can also see that withdrawals in the same amounts have been made from the education fund in row 24 to cover these expenses and that the amount of the education fund has been reduced accordingly on row 100.

Your Plan: Enter the amounts of any education expenses you expect to pay in the appropriate columns of row 65, regardless of whether you have established an education fund or not. If you have an education fund, you should show withdrawals on row 24 to meet these expenses.

EDUCATION FUND CONTRIBUTIONS –

Ben & Vera: This consists of any amounts of money they set aside as a fund for education. Note that these contributions relate to the asset listed on row 100 of the net worth statement. Ben and Vera have a beginning balance of $2,200 in this fund. The contributions in this category are budgeted through their son's last year in college, and they are added to the education fund.

Your Plan: If you are setting aside funds for future education expenses, include the amounts you expect to add in the appropriate columns. You can observe the effect of the additions (and the education expenses you budget in row 24) by looking at the balances on row 100 in the net worth statement.

ENTERTAINMENT –

Ben & Vera: This should be self-explanatory, however one person's discretionary entertainment might be considered as another's requirement.

Your Plan: This should include movies, parties, eating in restaurants (unless you elect to include it in the food category) and all other discretionary entertainment. Include those expenses here that could be reduced or eliminated if absolutely necessary.

> When I was a boy of fourteen, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much he had learned in seven years.
>
> Unknown

EQUITY SECURITIES PURCHASES –

Ben & Vera: As their cash flow builds, Ben and Vera need to decide how to deploy excess cash to produce more income and/or capital gains. In 2032 they purchase $200,000 worth of equities for their portfolio. This investment is automatically added to the asset category "Equity Securities" in row 90.

Your Plan: If your investment risk tolerance is consistent with owning stocks, mutual funds or Exchange Traded Funds (ETFs), you may be adding to equity investments if you have significant positive cash flow. One of the approaches you could take is to simply program in a regular investment amount per year on row 68. This will obviously affect your overall cash flow, but will challenge you to manage your income and expenses in a way that will structure the building of an investment portfolio to help you meet your long-term needs for retirement and financial security. Virtually all investors should have some exposure to the stock market in order to achieve acceptable long-term investment returns. See the Appendix for "Suggested Reading."

GIFTS FOR OTHERS –

Ben & Vera: Gifts for Christmas, birthdays, weddings, anniversaries and other gifts have been estimated and entered in row 69.

Your Plan: One approach would be to use an average of your past expenses and then add anything new that may be contemplated.

IRA CONTRIBUTIONS (ROTH IRA) –

Ben & Vera: They do not have a Roth IRA plan.

Your Plan: If you have one or more Roth IRAs (plans where you do not receive a tax deduction when contributions are made and where withdrawals are not subject to income tax), enter the amount of your expected contributions in row 70. These contributions will be added to row 102 in the net worth statement. See "Suggested Readings" in the Appendix for more information about Roth IRAs.

IRA CONTRIBUTION (TRADITIONAL IRA) –

Ben & Vera: This includes new contributions made to their regular IRA plans. These contributions relate to the asset listed on row 103. Ben and Vera have a beginning balance of $12,350 in their IRA accounts. The new contributions are added to this fund. Although they have individual IRAs, the contributions have been combined in row 71, as has the value of their accounts on the net worth statement.

Your Plan: If you have one or more traditional IRAs (plans where you receive a tax deduction when contributions are made and where withdrawals are subject to income tax), enter the amount of your expected contributions in row 71. These contributions will be added to row 103 in the net worth statement.

MISCELLANEOUS –

Ben & Vera: This comprises all projected expenses that are not itemized under another category. Expenses in this category should be kept to a minimum, as it is difficult to account for them.

Your Plan: If you need a slush fund, this is the place for it. Include any expenses in row 72 that are small in nature and that don't belong in another defined category.

TAXABLE FIXED INCOME SECURITIES PURCHASES –

Ben & Vera: They already have $40,000 of securities in this category and will purchase $200,000 more in 2032 and $200,000 in 2050.

Your Plan: Investment diversification is the hallmark of balancing risk. In addition to equity investments, most investors should also have assets allocated to fixed income investments and cash. As with equities, this can be done either annually or periodically, depending on cash flow availability.

TAX EXEMPT FIXED INCOME SECURITIES PURCHASES –

Ben & Vera: Purchases expected to be in the amount of $200,000 are made with excess cash flow in 2032 and $100,000 in 2050.

Your Plan: Whether you concentrate on taxable or tax exempt fixed income securities for the income producing portion of your portfolio should largely depend on your tax bracket. The higher your bracket on additional incremental taxable income, the more attractive tax exempt securities are. By calculating and subtracting the amount of additional tax you would pay on a taxable security from the income it produces, you can then compare it with the income you would receive from a tax exempt security to see which is best for you.

TRAVEL/VACATIONS –

Ben & Vera: Row 75 is the expense for travel and accommodations that Ben and Vera expect to incur when they travel for pleasure.

Your Plan: Enter your estimated annual expenses for any travel and vacations you expect to take. Travel for business purposes that is reimbursed by an employer should not be entered into this category. Such travel, if reimbursed, is probably best left out of the plan entirely. If a more expensive leisure trip is planned in a given year, a larger number could be entered under that column in row 75 with a reversion back to a smaller number in the following year, which would then resume at the growth rate you designated on the "Assumptions" worksheet.

VEHICLE REPLACEMENT FUND CONTRIBUTIONS –

Ben & Vera: Unlike most people, Ben and Vera have a desire to save money in advance to purchase their next vehicle rather than borrowing money when it needs to be replaced. This line item, and two other rows related to it which we will discuss later (107 and 147), account for this. On row 76 of their plan, Ben and Vera start saving $5,000 for a replacement vehicle and increase the amount by 1% per year.

<u>Your Plan</u>: If you plan to save in advance for a vehicle rather than borrowing the money at the time you buy it, row 76 is the right place to enter the amount you expect to save annually. Additions to this row are added to row 107 in the net worth statement. Note: you may or may not be segregating these funds from other funds for investment purposes. They are simply segregated here for accounting purposes so there is a designated means of being sure the money is there when the vehicle is needed.

OTHER DISCRETIONARY EXPENSES –

<u>Ben & Vera</u>: Not used in their plan.

<u>Your Plan</u>: If you have discretionary expenses that do not fit well into any other category, or if you wish to segregate a specific expense item so you can watch it more closely, you can include it under one of the three rows available here. Simply type in the name of the expense in column A, using one of rows 77-79, and enter the estimated expenses in the same row.

Be sure to enter growth rates on the "Assumptions" worksheet, if different than the default average rate, for any such "other" items.

TOTAL DISCRETIONARY EXPENSES –

<u>Ben & Vera</u>: This represents the total of all of the standard and unique expenses that have been identified as discretionary, controllable or not mandatory.

<u>Your Plan</u>: The total for your plan will be automatically calculated.

TOTAL USES OF INCOME –

<u>Ben & Vera</u>: This is the sum of all non-discretionary and discretionary expenses.

<u>Your Plan</u>: The total for your plan will be automatically calculated.

POSITIVE/NEGATIVE CASH FLOW –

<u>Ben & Vera</u>: In Ben and Vera's case, after considerable reworking of their plan their total sources of $108,950 are more than their uses of $108,575. If their projections are correct they will have positive cash flow of $375 for the first year of their plan. As you can see, the projected cash flow is calculated for each future year on row 83.

Your Plan: This number is probably the single most important one on the entire worksheet. It indicates (1) whether you are living within your means and (2) whether you are able to save money for the future, which drives the growth or shrinkage of the net worth statement on the worksheet.

If your sources of income are greater than your uses of income, this is a positive figure. The reverse would cause a negative number. Row 83 should be a major area of focus after the draft of your worksheet is completed. If you see large and/or recurring negative numbers in this row, it is time to start planning for how you are going to increase your income or reduce your expenses, or both. As stated previously, this row has a significant impact on the net worth statement, as it feeds into row 89, "Cash and Cumulative Cash Flow."

> "Money isn't everything, but it's a long way ahead of whatever comes next."
>
> Edmund Stockdale

BUILDING YOUR NET WORTH STATEMENT

The net worth statement is a detailed summary of everything you own, everything you owe, and the difference between the two (hopefully a very positive number). There are a number of ways that net worth can be enhanced, either by increasing what you own, decreasing what you owe, or a combination of both. Some of the most obvious ways are: (1) increasing your income, (2) the growth (price appreciation) in value that typically occurs over time with assets such as real estate and investments, (3) receipt of gifts and inheritances, (4) reduction of debt, including the amortization of mortgages and other loans, and (5) the creation of positive cash flow by proper management of your expenses in relationship to your income. All of these will come into play as we examine Ben and Vera's net worth statement.

Assets are always listed first, followed by liabilities, and then followed by the net worth computation. Assets are separated into current assets (immediately or quickly available for use, within one year or less) and long-term assets (not readily available, or only available in one year or more). Liabilities are similarly separated into current liabilities (obligations due within one year) and long-term liabilities (obligations due in longer than one year).

NET WORTH STATEMENT

	Growth Rate
NET WORTH STATEMENT (START OF YEAR)	
ASSETS:	
CASH AND CUMULATIVE CASH FLOW	N/A
EQUITY SECURITIES	6.0%
TAXABLE FIXED INCOME SECURITIES	0.0%
TAX EXEMPT FIXED INCOME SECURITIES	0.0%
OTHER CURRENT ASSET #1	0.0%
OTHER CURRENT ASSET #2	0.0%
OTHER CURRENT ASSET #3	0.0%
401(K)/403(B) PLAN (FIRST INCOME)	6.0%
401(K)/403(B) PLAN (SECOND INCOME)	0.0%
EDUCATION FUND	7.0%
HOUSEHOLD GOODS	-5.0%
IRA (ROTH IRA)	0.0%
IRA (TRADITIONAL IRA)	7.0%
LIFE INSURANCE CASH VALUE	4.0%
RESIDENCE	3.0%
VACATION PROPERTY	4.0%
VEHICLE REPLACEMENT FUND	2.5%
VEHICLES	-20.0%
OTHER LONG-TERM ASSET #1	0.0%
OTHER LONG-TERM ASSET #2	0.0%
OTHER LONG-TERM ASSET #3	0.0%
LIABILITIES:	
CREDIT CARDS	N/A
INCOME TAXES PAYABLE	N/A
OTHER CONSUMER CREDIT	N/A
OTHER SHORT-TERM DEBT #1	N/A
OTHER SHORT-TERM DEBT #2	N/A
OTHER SHORT-TERM DEBT #3	N/A
MORTGAGE ON RESIDENCE	N/A
MORTGAGE ON VACATION PROPERTY	N/A
OTHER LONG-TERM DEBT #1	N/A
OTHER LONG-TERM DEBT #2	N/A
OTHER LONG-TERM DEBT #3	N/A

In addition to being a major part of your lifetime plan that will determine your financial success or failure, the net worth statement has other implications for your financial life. If you plan to borrow money to purchase or refinance a house, purchase a vehicle or borrow for any other purpose, the lenders will want to have a current copy of your net worth statement, or much of the information that constitutes it. They will also likely want information on some of the more significant income and expense items from your cash flow statement. After completing the worksheet, providing the information in detail will be a simple matter for you.

" Every day I get up and look through the Forbes list of the richest people in America. If I'm not there, I go to work."

Robert Orben

Note that the header in cell reference A87 says "Start of Year." While the data you enter in the rows for the cash flow statement is for the first planning year ended December 31 of that year, the data used for the net worth statement should preferably be as of January 1 of the first planning year. So, if you are working on the first draft of your plan, say, in April, you should go back to and reconstruct the data as of the first of January for the line items in column B of the net worth statement. This should be relatively easy if you save financial data. If necessary, some line items can be estimated.

There is no default average growth rate on the "Assumptions" worksheet for the rows in the net worth statement. This is because a single default rate would be difficult to establish, given the diversity of growth rates that apply to assets. Also, the growth rate of assets is not as closely aligned with the long-term inflation rate as are many of the expenses. Some categories, as we will see, may even have a negative growth rate (depreciation in value). Therefore, you should be sure to enter an appropriate growth rate, if any, for each of the following line items included among the assets on the "Assumptions" worksheet after we have discussed these line items on the net worth statement. Note: liabilities would rarely have a growth rate assigned to them, as they are repaid at a fixed value.

CURRENT ASSETS:

We will begin by examining the current assets…those assets that are generally available for use to meet expenses at any time from the present up to one year.

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
87	**NET WORTH STATEMENT (START OF YEAR)**			
88	**ASSETS:**			
89	CASH AND CUMULATIVE CASH FLOW	$0	$375	$1,530
90	EQUITY SECURITIES	$60,000	$63,600	$67,416
91	TAXABLE FIXED INCOME SECURITIES	$40,000	$40,000	$40,000
92	TAX EXEMPT FIXED INCOME SECURITIES	$0	$0	$0
93	OTHER CURRENT ASSET #1	$0	$0	$0
94	OTHER CURRENT ASSET #2	$0	$0	$0
95	OTHER CURRENT ASSET #3	$0	$0	$0
96	**TOTAL CURRENT ASSETS**	$100,000	$103,975	$108,946

CASH AND CUMULATIVE CASH FLOW –

Ben & Vera: As noted previously, Ben and Vera have $375 of projected positive cash flow for the first year (cell B83). This figure is the beginning number in the following year for the “Cash and Cumulative Cash Flow” asset in row 89. In each subsequent year, to configure row 89 the positive or negative cash flow for that year is then added to the previous year’s cash and cumulative cash flow balance in row 89 along with the investment return on the previous year’s cash and cumulative cash flow (row 11).

Your Plan: Your challenge as you continue to work your plan is to at least bring the numbers in row 83 to above $0 and hopefully to produce increasingly positive numbers over subsequent years.

The first line of the current assets, row 89, is particularly important. This line adds the positive or negative cash flow from row 83 into the net worth statement. “Cash and Cumulative Cash Flow,” and its counterpart in the cash flow statement, “Positive/Negative Cash Flow,” are principal indicators of your financial health. There is no growth rate needed in cell B89 on the “Assumptions” worksheet, as the investment return you expect to receive on the accumulated cash, until disbursed to other investment categories, is established in cell B11, which drives the investment return in row 11 of the “Projections” worksheet.

Over time you should hopefully accumulate a significant amount of cash flow if you can control your expenses to a level below your income. Therefore, if in your plan the amounts in row 89 build up substantially when your plan is complete, you may wish to transfer some of this to other line items such as equity securities and fixed income securities to obtain greater investment returns, pay off mortgages, etc. Note how Ben and Vera have done this by purchasing equities (row 68) and fixed income securities (rows 73 and 74) in years 2032 and 2050.)

EQUITY SECURITIES –

Ben & Vera: This asset category would generally include stocks, mutual funds and Exchange Traded Funds (ETFs). Ben and Vera have determined the amount of dividends they receive on this asset class and have entered the applicable percentage rate to provide this in cell B10 of the "Assumptions" worksheet. But dividends are just one component of the investment return on equity securities. Equities typically grow in market value over time as companies' earnings grow. In row 90 they have entered 6% as the average growth rate they expect to realize in the principal value of their equity investments, taking to heart the statements that many investment experts have made in recent years about the likelihood of equity markets growing more slowly in the future than they have in the past.

Your Plan: If you have equity investments, one of the most important decisions you will need to make is the growth rate you estimate. While equities (including growth in value and dividends) have provided annual compounded returns of approximately 10% over the past century, many investment experts believe that we will undergo a significantly smaller rate of return for many years to come. Using a figure of 5% to 7% as a growth rate may be reasonable. Keep in mind that this growth rate in value for this line item does not include dividend income, as it is reported separately in row 10.

" Put all your eggs in one basket, and watch that basket.""

Mark Twain

TAXABLE FIXED INCOME SECURITIES –

Ben & Vera: Ben and Vera already have a fixed income portfolio of taxable bonds starting with the first planning year in row 91. Why have they entered 0% as a growth factor for this category on the "Assumptions" worksheet? The interest on these bonds was already calculated in row 17 ("Taxable Interest") after a 4% rate was entered in cell B17 of the "Assumptions" worksheet. Since they will receive a fixed amount for the bonds when they mature, the bond principal will not grow in value, and they will receive the same amount at maturity as they paid for the bonds. If they had bought the bonds at a discount so that the value would be greater at maturity, they could have factored in a small growth rate that would grow the value of the bonds to coincide with their value at maturity. In this case, they bought the bonds at par (the same value at which they will mature).

Your Plan: Include in cell C91 the current market value of all taxable fixed income investments, including bonds, certificates of deposit and mortgage investments. Unless you have purchased bonds at a discount that will grow in value by maturity, or unless they are worth less today than you paid for them, you should place 0% as a growth factor in the "Assumptions" worksheet.

TAX EXEMPT FIXED INCOME SECURITIES –

Ben & Vera: They do not own any securities in this category initially, but acquire $200,000 worth in 2032 and $100,000 worth in 2050, as seen on row 74..

Your Plan: Include in cell 92 the current market value of all tax exempt fixed income investments (usually municipal bonds). Unless you have purchased bonds at a discount that will grow in value by maturity, or unless they are worth less today than you paid for them, you should place 0% as a growth factor in the "Assumptions" worksheet.

OTHER CURRENT ASSETS –

Ben & Vera: Not used in their plan.

Your Plan: If you have other current assets that do not fit well into any other category, or if you wish to segregate a specific current asset item so you can watch it more closely, you can include it under one of the three rows available. Simply type in the name of the current asset in column A using one of rows 93-95 and enter the value in the same row.

Be sure to enter growth rates on the "Assumptions" worksheet, if different than the default average rate, for any such "other" items.

TOTAL CURRENT ASSETS –

Ben & Vera: This is the total of their current assets.

Your Plan: The total for your plan will be automatically calculated.

LONG-TERM ASSETS:

Long-term assets are those that are generally not available to you for use currently or within one year.

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
97				
98	401(K)/403(B) PLAN (FIRST INCOME)	$68,500	$77,317	$86,803
99	401(K)/403(B) PLAN (SECOND INCOME)	$0	$0	$0
100	EDUCATION FUND	$2,200	$3,670	$5,243
101	HOUSEHOLD GOODS	$60,000	$57,000	$54,150
102	IRA (ROTH IRA)	$0	$0	$0
103	IRA (TRADITIONAL IRA)	$12,350	$15,355	$18,569
104	LIFE INSURANCE CASH VALUE	$1,000	$1,040	$1,082
105	RESIDENCE	$315,000	$324,450	$334,184
106	VACATION PROPERTY	$120,000	$124,800	$129,792
107	VEHICLE REPLACEMENT FUND	$5,000	$10,301	$15,787
108	VEHICLES	$25,000	$20,000	$16,000
109	OTHER LONG-TERM ASSET #1	$0	$0	$0
110	OTHER LONG-TERM ASSET #2	$0	$0	$0
111	OTHER LONG-TERM ASSET #3	$0	$0	$0
112	**TOTAL LONG-TERM ASSETS**	$609,050	$633,932	$661,610
113				
114	**TOTAL ASSETS**	$709,050	$737,907	$770,556

401(K)/403(B) PLAN –

<u>Ben & Vera</u>: Ben participates in a company plan to which both he and his company contribute. Vera does not have such a plan. The current account balance in entered into cell B98. Ben entered 6% as the growth rate on the "Assumptions" worksheet based upon the mix of investments in his account and his expectations for them. The formula in row 98 adds in his contributions from row 61 and subtracts any withdrawals from row 8 (Ben does not contemplate making any withdrawals until his retirement). It is also necessary to add in the company's contributions. His company will contribute 3% of his annual salary to the plan. Therefore, he entered 3% into cell B144 on the "Assumptions" worksheet. The numbers in row 144 of the "Projections" worksheet are automatically calculated by multiplying this percentage times his salary in row 8.

Your Plan: If you participate in one or more 401(K)/403(B) plans, use cells B98 and B99 to enter the current balance(s). Also enter the appropriate growth rate(s) in cells B98 and B99 on the "Assumptions" worksheet, as appropriate, based on your investment mix. If your employer(s) contribute to the plan(s), enter the percentage of salary contribution in cells B144 and B145 of the "Assumptions" worksheet. Most companies contribute a percentage of salary, however if your company contributes a fixed amount, you can enter specific dollars into rows 144 and 145 of the "Projections" worksheet.

EDUCATION FUND –

Ben & Vera: This is the accumulated balance from the amounts that Ben and Vera are setting aside annually for their son's college education. The formulas in row 100 automatically calculate the growth factor of 7% that has been entered in cell B100 in the "Assumptions" worksheet and add this to the contributions from row 66. Any withdrawals from row 24 are subtracted from this fund. Income and gains in this account are not shown as taxable income, as they have structured this account so that it is not taxable.

A point of discussion: Why have they entered a 7% growth factor into the "Assumptions" worksheet, whereas the equity securities growth rate is only 6% (obviously their intent is to use equities as investments for the education fund, as there is no other investment currently that could potentially yield a rate of return that large). In the case of equity securities, you will recall that the dividends were separated and placed into row 10 and the equity growth portion of the total return was built into row 90. This was done so the dividends would be included in taxable income. In the case of the education fund, the entire return of dividends and capital appreciation is built into row 100 (the dividends will not be taxed to Ben and Vera, so there is no need to separate them).

Your Plan: If you will have education expenses and have, or plan to have, an education fund, enter any current balance in cell C100. Be sure to use rows 24 and 66 for withdrawals and additions as appropriate, and place actual anticipated education expenses into row 65.

HOUSEHOLD GOODS –

Ben & Vera: They have opted to depreciate the value by 5% of the balance annually using a negative growth rate. This would presumably include replacement with some new items from the annual household costs listed under non-discretionary expenses.

Your Plan: Enter the estimated value of your household goods in cell B101 and a negative growth rate for your estimated depreciation. Household goods will likely depreciate faster than 5% annually, but purchases of new items in line 42 should make this reasonable overall.

IRA (ROTH IRA) –

Ben & Vera: They do not have a Roth IRA.

Your Plan: If you have one or more Roth IRAs, enter the current balance(s) in cell B102 and the expected growth rate in cell B102 of the "Assumptions" worksheet. Be sure you use rows 27 and 70 on the "Projections" worksheet for withdrawals and additions as appropriate.

IRA (TRADITIONAL IRA) –

Ben & Vera: Row 103 is a traditional IRA to which they are adding $2,000 per year (see row 71). They have entered a growth factor of 7% for this account in the "Assumptions" worksheet, as they expect the stocks that are in the plan, including any dividends, to grow by that amount on a compounded basis annually. The growth is added to the contributions from row 71 and any withdrawals from row 12 to arrive at a projected balance.

Your Plan: If you have one or more traditional IRAs, enter the current balance(s) in cell B103 and the expected growth rate in cell B103 of the "Assumptions" worksheet. Be sure you use rows 12 and 71 on the "Projections" worksheet for withdrawals and additions as appropriate.

LIFE INSURANCE CASH VALUE –

Ben & Vera: In Ben and Vera's case, they have a small amount of insurance policy cash value, which they estimate will increase by 4% annually, assuming they continue to pay the premiums on the policies.

Your Plan: If you own "permanent" insurance that accumulates cash value, enter the total current cash value of any such policies in cell B104 of the "Projections" worksheet and the expected annual growth in cash value into cell B104 of the "Assumptions" worksheet. Many individuals and families have "term insurance" policies that usually do not build cash value and only provide risk protection.

RESIDENCE –

<u>Ben & Vera</u>: Based on recent sales in their neighborhood and comparing their house with the square footage and other features of the houses that have sold, Ben and Vera have determined that their home is worth approximately $315,000.

<u>Your Plan</u>: This is the largest single asset owned by many people. The number placed in cell B105 should be the current market value of your home if you own one. If needed, you can get help in determining the value by researching home values in your neighborhood on the Web site of Zillow.com (www.zillow.com). Other Web sites, such as www.homegain.com and www.domania.com may also be of value. You can also use your real estate tax records as a guide, although the current market value will often be higher than the tax valuation. Enter the expected annual growth rate of its value in cell B105 of the “Assumptions” worksheet. The rate of growth, and in some years the decline, in home values varies considerably throughout the country. This information is likely available from your local Chamber of Commerce, newspaper or a Realtor.

VACATION PROPERTY –

<u>Ben & Vera</u>: Ben and Vera have another property that is both an investment and something they enjoy. Row 18 has been used for net income received from renting this property on occasion. Current market value should be used for all real property. In this case the acquisition of the property was fairly recent, so the purchase price was used. The growth rate in value for a vacation property is often somewhat greater than for a residence. Four percent annual growth has been estimated on the “Assumptions” worksheet. Note in cell address AP106 that they plan to sell this property in 2050. The proceeds have been entered as a taxable income item in row 19. This will calculate the entire proceeds as being taxable income, which will throw off the income tax calculation a bit, as the original cost of the property would not be subject to taxation. Also note that the rental income in row 18 was changed to $0 when the property was sold.

<u>Your Plan</u>: If you own a vacation property, enter the current market value in cell B106. If it produces income, the net amount should be entered using an “Other Taxable Source.”

VEHICLE REPLACEMENT FUND –

<u>Ben & Vera</u>: They like to purchase a new vehicle about every five years. You will recall that they are planning to save $5,000 annually (increasing by 1% each year) for this purpose rather than borrowing at the time of the purchase. They have taken the estimated trade-in value of their existing vehicle into consideration in establishing their annual savings amount. These funds are placed into row 107 at an assumed investment rate of 2.5%. The funds may be held in a separate financial account or commingled with other investment funds, but are reported separately here to assure that funds are available for the intended purpose when needed. As you can see, the balance builds until the time they have planned to purchase a new vehicle, as indicated in row 147 ("Vehicle Replacement Cost"). The amount is automatically subtracted from row 107 when this is planned to occur (2015, 2020, and so on).

<u>Your Plan</u>: If you plan to save in advance for a replacement vehicle, use rows 76, 107 and 147 as above to build this into your plan so the money will be there. Also enter growth rates in rows 76 (for the increase, if any, in annual additions to the fund) and 107 (for the investment return on the fund) on the "Assumptions" worksheet as appropriate.

VEHICLES –

<u>Ben & Vera</u>: Ben and Vera obtained current values for their vehicles from their personal banker, who provided them with the retail "Blue Book" valuation. Note that they have reduced the current value of their vehicles by 15% each year using a negative growth rate to account for the depreciation in value that typically occurs with vehicles. When their plan calls for purchase of a new vehicle, this row is automatically adjusted according to the planned purchase in row 147. The first purchase is planned in 2015.

<u>Your Plan</u>: For cell B108, information on the value of automobiles, SUVs and trucks can be obtained online by going to the Kelley Blue Book Web site, www.kbb.com. Click on the appropriate link under "What's my Blue Book value?" Another source is www.autobytel.com. Click on "Used Cars" and go from there. Another source is AutoTrader (www.autotrader.com). These are vehicles that are for sale by individuals as well as dealers and will give you a good idea what your vehicles are worth. Use CycleTrader (www.cycletrader.com) for valuations on motorcycles. As a last resort, a personal banker (or other consumer lending officer) at your bank often will have information available on vehicle valuations.

OTHER LONG-TERM ASSETS –

Ben & Vera: Not used in their plan.

Your Plan: If you have other long-term assets that do not fit well into any other category, or if you wish to segregate a specific long-term asset item so you can watch it more closely, you can include it under one of the three rows available here. Simply type in the name of the long-term asset in column A using one of rows 109-111 and enter the value in the same row.

Be sure to enter growth rates on the "Assumptions" worksheet, if different than the default average rate, for any such "other" items.

TOTAL LONG-TERM ASSETS –

Ben & Vera: This is the total of all of the above long-term assets.

Your Plan: The total for your plan will be automatically calculated.

TOTAL ASSETS –

Ben & Vera: This is the total of current assets and long-term assets.

Your Plan: The total for your plan will be automatically calculated.

CURRENT LIABILITIES:

Of all your obligations and debts, those that are current liabilities are the most pressing. They are either due and payable now or within one year.

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
116	**LIABILITIES:**			
117	CREDIT CARDS	$2,200	$2,266	$2,334
118	INCOME TAXES PAYABLE	$0	$0	$0
119	OTHER CONSUMER CREDIT	$0	$0	$0
120	OTHER SHORT-TERM DEBT #1	$0	$0	$0
121	OTHER SHORT-TERM DEBT #2	$0	$0	$0
122	OTHER SHORT-TERM DEBT #3	$0	$0	$0
123	**TOTAL CURRENT LIABILITIES**	$2,200	$2,266	$2,334

CREDIT CARDS –

Ben & Vera: Ben and Vera are fortunate that they have no short-term debt other than their current bills and charges on their credit cards. They do most of their purchasing using their credit cards so that they have complete records for tax purposes and to track their expenses. They pay off the entire balances due on their credit cards each month so that there are no finance charges. They estimate their monthly charges to be about $2,200 now, so that is the current amount owed in any given month. They have factored in a growth rate of 3% each year to take the cost of inflation of their purchases into consideration. The dollar amounts that comprise these credit card balances are fully included in the various line items under discretionary and non-discretionary expenses.

Your Plan: If you have existing credit card debt, enter the total balances in cell B117 of the "Projections" worksheet. If this figure represents only regular monthly purchases that you pay off in full each month, you may want to enter a growth rate, if different than the default average rate, in cell B117 on the "Assumptions" worksheet that would correspond to the amount of inflation your purchases will likely incur in the future. If, however, you have a significant amount of credit card debt and do not pay off your balances in full monthly, you will likely want to enter a negative number for the growth rate, as you will be hopefully paying down the balances and can make manual adjustments as the debt is paid down. Many credit card companies require you to pay interest plus 1% of the principal amount each month. This would be equivalent to entering minus 12% in cell B117 on the "Assumptions" worksheet to pay down the principal of the credit card debt. Note that the current liability for credit cards in row 117 automatically adds in credit card cash advances on row 23. It does *not* automatically subtract the credit card repayments in row 64, since these would include interest as well as principal payments. The credit card liability in the net worth statement only includes the principal balance. As indicated a negative growth rate can be used for principal payments, or the amount of projected outstanding credit card debt can be manually adjusted to reflect the principal reductions from any credit card payments entered in row 64.

INCOME TAXES PAYABLE –

Ben & Vera: This is not currently applicable for Ben and Vera.

Your Plan: This category is for income taxes that might be owed in the future (but not now) on an asset in the net worth statement. For example, if you own stock that is worth considerably more than you paid for it, you would be faced with a capital gain in the event the stock was sold. A completely accurate net worth statement would take into consideration this potential future tax liability, as it is likely that the tax will be triggered at some point. Under current tax regulations, the maximum long-term capital gain tax rate is 15%. Therefore, if you had such a built-in gain, you could take 15% of the amount of current gain and list that amount in this category. Another example might be deferred compensation or stock options. For individuals having such assets, they should be listed on the net worth statement. As they would trigger an income tax consequence when cashed or exercised, the estimated future tax liability should be listed on this row for complete accuracy.

OTHER CONSUMER CREDIT –

Ben & Vera: None at this time.

Your Plan: If you currently have other consumer credit debt obligations, enter the total balances in cell B119 of the "Projections" worksheet. Note that the current liability for other consumer credit in row 119 automatically adds any amounts received from new consumer loans in row 28. It does *not* automatically subtract the consumer credit repayments in row 50, since these would include interest as well as principal payments. The other consumer credit liability in the net worth statement only includes the principal balance, which will need to be manually adjusted to reflect the principal reductions from any consumer credit payments entered in row 50.

OTHER SHORT-TERM DEBT –

Ben & Vera: This is not currently applicable for Ben and Vera.

Your Plan: Other debt and borrowed funds that must be repaid within one year should be listed here. An example would be a short-term bank note.

TOTAL CURRENT LIABILITIES –

Ben & Vera: In their case, this is the same number as for credit card charges, but could also include additional short-term debts that might be incurred from time to time that are payable within one year.

Your Plan: The total for your plan will be automatically calculated.

LONG-TERM LIABILITIES:

Long-term liabilities are either due or payable more than one year from now.

	A	B	C	D
1	**PLANNING YEAR ENDED ---------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
125	MORTGAGE ON RESIDENCE	$232,477	$228,004	$223,255
126	MORTGAGE ON VACATION PROPERTY	$100,000	$91,898	$83,423
127	OTHER LONG-TERM DEBT #1	$0	$0	$0
138	OTHER LONG-TERM DEBT #2	$0	$0	$0
129	OTHER LONG-TERM DEBT #3	$0	$0	$0
130	**TOTAL LONG-TERM LIABILITIES**	$332,477	$319,902	$306,678
131				
132	**TOTAL LIABILITIES**	$334,677	$322,168	$309,012

MORTGAGE ON RESIDENCE –

Ben & Vera: This is the current balance owed on their home mortgage. The principal balance each year from an amortization schedule has been manually entered, so the balance is exact.

Your Plan: If you have a mortgage loan on your residence, enter the current balance in cell B125. If needed, use the Excel® "Loan Amortization" file to prepare a customized amortization schedule for your loan. Then use that information to enter the principal loan balance for the beginning of each year in row 125.

MORTGAGE ON VACATION PROPERTY –

Ben & Vera: Ben and Vera borrowed money to finance their vacation property. The data was entered from an amortization schedule, as was done with their home.

Your Plan: Use the same instructions you used for the mortgage on your residence to complete this category on row 126, if applicable.

OTHER LONG-TERM DEBT –

Ben & Vera: This is not currently applicable for Ben and Vera.

Your Plan: Other debt and borrowed funds that are scheduled to be repaid in over one year should be listed here. An example would be a long-term personal loan from a relative with payments over a period of years.

TOTAL LONG-TERM LIABILITIES –

Ben & Vera: This is the sum of all of the long-term debts and obligations. In this case it is simply the total of the two mortgages each year.

Your Plan: The total for your plan will be automatically calculated.

NET WORTH AND VARIOUS RATIOS:

	A	B	C	D
1	PLANNING YEAR ENDED --------------------->	2010	2011	2012
2	AGE DURING PLANNING YEAR: BEN	40	41	42
3	AGE DURING PLANNING YEAR: VERA	39	40	41
4				
134	NET WORTH	$374,373	$415,739	$461,544
135				
136	CURRENT RATIO	4545.5%	4588.5%	4667.8%
137	DEBT TO WORTH RATIO	89.4%	77.5%	67.0%
138	NON-DISCRETIONARY EXPENSES TO TOTAL INCOME	80.5%	80.0%	79.5%
139	DISCRETIONARY EXPENSES TO TOTAL INCOME	19.2%	19.0%	18.8%
140	TOTAL EXPENSES TO TOTAL INCOME	99.7%	99.0%	98.3%
141	SAVINGS RATE	0.3%	1.0%	1.7%

NET WORTH –

This figure is your total assets less your total liabilities. The number for your plan will be automatically calculated.

CURRENT RATIO –

Dividing current assets by current liabilities provides the current ratio. Since current liabilities are debts that come due within one year, there should always be more current assets than current liabilities so that debt payments can be met. Therefore, the ratio should be 100% or more, and the higher the ratio the better.

DEBT TO WORTH RATIO –

This key ratio is calculated by taking total liabilities and dividing that number by the net worth figure. Obviously the lower the ratio, the better off you are. People whose debt exceeds their worth (ratio greater than 100%) are in danger of financial difficulty, and the higher the percentage the greater the danger they are in. It would be particularly precarious if most of the debt were in current liabilities that need to be repaid soon.

NON-DISCRETIONARY EXPENSES TO TOTAL INCOME –

This tells you how much of your income is tied up in paying for things over which you have little or no control. The higher the figure, the more strapped you are. It allows little room for error if significant unexpected expenses occur or if there is a loss of income and a cash reserve is not available. Reducing non-discretionary expenses over time where possible is a worthy goal for everyone. If this figure is over 100% and you have little cash or other current assets and no borrowing capability, asset liquidation will be required or bankruptcy may eventually follow.

DISCRETIONARY EXPENSES TO TOTAL INCOME –

These are expenses that theoretically could be eliminated or reduced much more easily should it become necessary to do so. While we need to manage *all* of our expenses prudently so that our cash flow is positive over time, discretionary expenses are not as serious because they can be cut quickly in many cases in the event of financial emergency. For many people, however, discretionary expenses can also be hard to eliminate due to certain lifestyle expectations that are cultivated over time.

TOTAL EXPENSES TO TOTAL INCOME –

The lower this number is the better off we are financially. If it exceeds 100% it means that we are spending more than we are taking in (negative cash flow), which should prompt a line-by-line review to "balance the budget," particularly if there are not adequate cash reserves or assets that can be converted to cash to cover the deficit in cash flow. If this ratio is less than 100% it means that we have positive cash flow and are saving money. The lower the number the better for positive cash flow and the better for wealth accumulation on the net worth statement.

SAVINGS RATE –

This number is related to the previous calculation. It is just stated in a different way. If this number is negative, it tells us the percentage of our income that we need to withdraw from one or more asset categories or borrow from a creditor to make ends meet. If it is a positive number, it expresses the percentage of our total income that we are able to save (more income than expenses, creating positive cash flow). Americans have a notoriously low savings rate…typically just a few percentage points or less. The Japanese, on the other hand, are very savings conscious. They often add 10% or more of their gross income to savings each year.

OTHER MISCELLANEOUS LINE ITEMS:

	A	B	C	D
1	**PLANNING YEAR ENDED --------------------->**	**2010**	**2011**	**2012**
2	**AGE DURING PLANNING YEAR: BEN**	**40**	**41**	**42**
3	**AGE DURING PLANNING YEAR: VERA**	**39**	**40**	**41**
4				
144	401(K) PLAN CONTRIBUTIONS BY COMPANY (ON ROW 14)	$2,250	$2,318	$2,387
145	401(K) PLAN CONTRIBUTIONS BY COMPANY (ON ROW 15)	$0	$0	$0
146				
147	VEHICLE REPLACEMENT COST	$0	$0	$0

401(K) PLAN CONTRIBUTIONS BY COMPANY (ON ROW 14 INCOME) –

<u>Ben & Vera</u>: Ben participates in a company sponsored 401(K) plan to which both he and his company make contributions. The company contributes a fixed percentage of Ben's salary annually (3%) if profit targets are met. The 3% figure has been entered into the growth rate in cell B144 of the "Assumptions" worksheet. This rate is multiplied times Ben's salary on line 14 to calculate the amount of company contributions each year, which is then automatically entered into row 144. Amounts from row 144 are added into the 401(K)/403(B) plan asset on row 98.

Your Plan: If you participate in one or more 401(K) plans, enter the percentage of your salary your company contributes toward the plan in cell B144 on the "Assumptions" worksheet (cell B145 for a spouse's or partner's plan).

VEHICLE REPLACEMENT COST –

Ben & Vera: The amount of any projected purchases of new vehicles are placed into row 147 under the years when the purchases are planned to take place (e.g., $25,000 in 2015, $27,500 in 2020). By reading the information in the cells in row 147 when purchases are made, you can see that the replacement vehicle purchase price is planned to increase by $2,500 every five years.

Your Plan: Enter the expected cost of a vehicle you plan to purchase in the year you plan to purchase it.

This completes the discussion of the data required to complete a personal cash flow statement and net worth statement. We will now turn to an analysis of Ben and Vera's draft plan to get a better understanding of how they should be interpreted and how change might be accomplished. This will help guide you in your own planning.

Interpreting the Plan Data

4

Hopefully by now you have completed at least one draft of your plan and have energy left to switch from the micro perspective to take a look at the macro perspective…step back from the trees so you can see the forest. You likely also have a better idea what was meant by the rows, columns and various worksheets within the workbook being interactive.

At the current stage of Ben and Vera's plan that you are observing, they have been through several drafts, reworking it as they find errors, opportunities for change and improvement. We will focus on the most important line items of their plan and comment on what to look for in your own plan. A row-by-row analysis will not be necessary. We want to focus on big issues that are going well or poorly at this point. Then you can drill down yourself to the smaller components to improve your plan in its next draft.

CASH FLOW

Ben & Vera: By scrolling down column B, the initial year of their plan, the first thing on the "Projections" worksheet that stands out is that their cash flow is just barely positive…their sources of funds (income) barely exceed funds used (expenses). Chances are very good that it did not turn out to be positive after their first plan draft. They undoubtedly had to make some adjustments to some of their assumptions. Perhaps they have already agreed on some expense reductions to arrive at a positive cash flow position.

Scrolling to the right for the first few columns on row 83 (positive/negative cash flow) we can see that they continue to build additional positive cash flow as their sources of funds grow faster than their expenses. In 2031 they experience a big jump in positive cash flow, followed by a much bigger negative cash flow in 2032. What has caused this? Scrolling up column W, the column for the year 2031, we see in cell W26 $250,000 in gifts received. This is the inheritance they forecast they will receive from Vera's parents.

What about the big deficit in 2032? Go to the top of column X, which is the column for that year and work your way down, looking specifically for items that have significant variances from the previous years. You will see that there is a lot happening in their lives during that year. First you can see that Ben is starting to take withdrawals from his 401(K) plan. This alone would cause you to believe that he must have retired. As you go down a few rows, they are also taking withdrawals from their traditional IRAs…further indication that they have retired. Down a few more rows and you see that both of their salaries have disappeared…retirement. And in the next row you can see that they are starting to receive Social Security benefits. In the following row you can see that their taxable interest has taken a rather sizeable jump. There is only one way that could happen. They must have invested more in taxable fixed income investments. Despite this, you can see from row 21 that total taxable income has taken a haircut of over 50% from the previous year.

Scrolling down further in column X, we see that the gifts have stopped. Since Vera's parents are now deceased and they have received the distribution from their estate, it comes to an end. Down further, Ben and Vera have some tax exempt interest for the first time. This is another indicator that they have increased their investments.

Continuing down the column into the expenses, we can see that their income taxes are down significantly. This is obviously directly related to the fact that their total taxable income was also down substantially from the previous year (remember that the taxes are computed automatically and proportionately based on the amount of taxable income each year compared with the first year of the plan). The next noteworthy item is the elimination of 401(K) contributions. These obviously came to a halt when Ben retired.

Finally we run into three major line items that have caused the significant negative cash flow for the year 2032. They have increased their investments in equity securities, taxable fixed income securities and tax exempt fixed income securities in the amount of $200,000 each. Although this is very positive for them, as it will increase the returns they receive from their investment portfolio, it is negative for cash flow. Fortunately they have been able to accumulate a growing amount of cash flow themselves in the earlier years along with the inheritance that was added to it in the previous year. This has allowed them to make these sizeable investments to support their retirement in comfort.

Your Plan: The primary item you should focus on is the cash flow in row 83 for the beginning year of your plan. Is it a negative number, and, if so, is that necessarily a problem? Scroll to the right along row 83. Do you have other columns with negative cash flow? Obviously it is better to have positive cash flow than negative cash flow…especially on a long-term, cumulative basis. Whether negative cash flow is a problem or not though depends on the size of it and how much in current assets one has available to counter the deficit. Negative cash flow resulting from the purchase of higher yielding permanent investments when there is significant cumulative cash flow is clearly a positive development, as seen above, not a negative development. But for most people, particularly those who are in the early stages of asset accumulation and wealth building, negative cash flows is a sign that action of some kind must be taken.

Since we, unlike the Federal government, are not able to legally print money to make up for shortfalls, we must have adequate resources to cover deficits or have the ability to borrow money (another potential source of funds, but one that has a cost). Borrowing money to finance current expenditures is rarely a good idea and can often lead to disaster. It weakens the net worth statement. The interest expense and principal repayment will also weaken cash flow in future years…pay cash now, or if you borrow you will pay more later!

And even if you have assets that can be converted to cash to cover shortages in cash flow, few people would be comfortable using investments to cover the negative cash flow in these early years. It would depend on how soon the shortages in cash flow come to an end, one's penchant for risk and how confident one is that the projections for future years are achievable (projecting conservatively generally makes the most sense). Most people would also not want to run the risk of having to liquidate equity securities, for example, at a disadvantageous time (when stock prices are low) if funds from this source would be needed to support their negative cash flow. Many would immediately start to look for ways to cut expenses, while others may well wait to see how things develop in the near-term future.

The formulas in the row for income on cumulative cash flow (row 11) will calculate a negative investment return of 3% greater than the rate entered into cell B11 of the "Assumptions" worksheet if the balance in the cash and new investments asset (row 89) is less than 0. This in effect is the equivalent of a short-term loan, for which a bank would normally charge at least 3% more than the investment rate you would receive. Therefore, negative amounts in row 11 represent an interest cost rather than a positive investment return, which would further contribute to negative cash flow.

What actions can we take to reverse negative cash flows and turn them positive? Here are the possible solutions, in the order of preference, and the reasons why they are in that order:

<u>Reduce expenses where possible</u>:

Cutting your expenses is usually the best action you can take, as it has an immediate impact on your cash flow. It also strengthens the net worth statement, which is the ongoing primary objective in order to achieve your long-term financial goals. You should review all individual expense line items to see where expense reductions or eliminations can be made. Look especially at discretionary expenses and the larger ones that have the most impact…but don't overlook any possibility.

Increase income where possible:

This alternative can have the same impact as expense reductions, although it is usually not as easy to increase income as quickly. Increasing income also strengthens your net worth statement…your fundamental long-term objective. How can we increase income? Let's look at the individual line items under sources of funds for ideas about increasing income.

A higher paying job or one with a better future might be the best solution, perhaps a second job, or your spouse/partner finding a job if he/she does not currently have one. An unemployed spouse/partner going to work can also have a negative effect in some cases on cash flow as well (e.g., increased child care expenses, more income taxes, more Social Security and Medicare taxes, more automobile expense, and so on). It must be clear that the benefits outweigh the disadvantages, both from a monetary and a family standpoint. A new job can potentially bring other benefits in addition to more cash income. A better health care plan will reduce out-of-pocket medical expenses. A job with a company that has a pension plan and/or 401(K)/403(B) plan may offer better long-term benefits or other benefits that you do not currently have.

If you have investable assets, look to see if they are invested in a way that will give you the best return, both currently and for the long-term. Everyone needs to have a highly liquid reserve fund for emergencies and to meet cash flow needs in the immediate future. But you might improve your return by transferring other money from a very low yield savings account to savings certificates or government bonds with a short time to maturity to improve your yield. And for more permanent investments, allocate a portion of your funds to fixed income securities, with some in extended maturities (longer-term bonds typically pay higher interest rates than short-term bonds). Do you have a significant exposure to the stock market? Despite short-term volatility (e.g., the crash of 1987 and the dot.com/telecom bursting of the bubble in 2000, the lost decade from 1999 through 2009) the overall track record of the stock market has been one of providing much higher returns for investors…an average of 10% compounded annually over the past century. While some experts believe that returns from equity investments may be less going forward, it is still likely that they will continue to provide superior returns compared with other alternatives. All investors, even retirees, should have some exposure to the stock market…it is just a matter of degree and comfort level.

Liquidate assets:

This may be a viable strategy in later years when we are no longer accumulating assets and are using what we have previously accumulated to help support us in our retirement years. It may also help us get over a very short-term financial crunch. Nonetheless, if you are not in the latter stages of your life, liquidating assets only provides a temporary fix and can cause future pain if the more fundamental actions of reducing expenses and/or increasing income are not taken. The sale of assets causes deterioration in the net worth statement. It results in less income, because assets generally produce income. Therefore, even though it can offset negative cash flow in the short run, it also causes deterioration in the cash flow statement in the longer run. Use liquidation of earning assets to cover shortages in cash flow (1) only in later years when you have built substantial cash reserves and/or investment portfolios, or (2) to solve a very short-term cash flow problem when it cannot be solved by expense reduction, increasing income or liquidation of non-earning assets.

Borrow money:

This is generally the least attractive alternative to cover negative cash flow and should be used only in the case of dire emergency or for strategic reasons. Let's differentiate between the two.

To solve an emergency cash flow problem by borrowing money will cover the deficit for now, but it doesn't provide a permanent solution any more than liquidating earning assets does. It causes deterioration in the net worth statement. Borrowed money obviously has to be repaid, and with interest. The interest and the principal repayment will cause reductions in future cash flow. Unfortunately most Americans seem to "solve" their financial problems by taking out loans, and to create new financial problems by continually borrowing more to finance their purchases of vehicles, larger homes and furnishings, college education, even vacations. In most cases their only concern is whether they can handle the current payment out of their wages, and lenders do not discourage this type of thinking. Little thought is given to the longer term implications of this in trying to save for the future, and usually no attempt is made to "run the numbers" on paper or through a program such as this one. Borrowing in these circumstances can postpone the agony, but only makes it worse over time. For that reason, consumers now have the highest bankruptcy rates in history. Only 38% of credit card users pay off their balances completely at each billing cycle. Suffice it to say that, in these circumstances, taking on debt is really no solution. If you must borrow, find the loan with the lowest interest rate possible. About the only type of loan that remains tax deductible is a home equity loan or line.

Is there a proper place for debt on our net worth statement? Absolutely…in the right circumstances. Few of us would ever own a home if we didn't finance its purchase. And, of course, home ownership has generally been a good investment for decades, in addition to providing the shelter we need. Even financing the purchase of a vehicle can make sense if it is necessary for a well-paying job. The important thing is not to stretch ourselves too thin.

At times, borrowing can even make sense for investment purposes…strategic borrowing. For example, assume you have worked many years for a successful business and the owner decided to sell out and retire for health reasons. The owner, whom you have known and trusted for many years, offers to sell the business to you at a discount to its true value. You have the opportunity to examine the owner's books and determine that as the owner you could do very well financially, both in terms of the income the business would provide, and in building the business to increase its value for your own retirement. Would you be willing to take on debt in order to buy this business? Chances are you would. This is strategic borrowing.

If you were very knowledgeable in the stock market and believed that the market had reached a point where it was extremely undervalued and presented great profit opportunity, would you be willing to borrow money directly or on margin from a broker to leverage your ownership of high quality stocks for greater profits? Some investors do this while others don't, depending on the investor's risk tolerance.

Suffice it to say that there are only a few good reasons for borrowing: (1) to buy a home suitable to your needs; (2) to buy something (e.g., a vehicle) that is essential to your job or improving your job situation; (3) to get yourself out of a short-term financial crisis that cannot be resolved in any other way (no rationalizing allowed); and (4) to create money making opportunities that significantly outweigh the risk and cost of borrowing. That's it.

How do you assess the viability of the alternatives of reducing expenses, increasing income, liquidating assets, and borrowing money? Use the "Projections" worksheet to examine pro-forma, "what-if" scenarios. Temporarily plug in new numbers for potentially feasible expense reductions and increases in income to see how much impact they would have on your cash flow statement and net worth statement, not only in the current year, but in your long-term plan. With compounding in future years, you may be surprised at how big an impact they may have. If your need goes beyond that, project asset liquidation on the net worth statement if you own assets that can be liquidated. As a final resort, plug in the amount you would need to borrow with repayment at a market interest rate and see what it does to the numbers in your current and future plan. Above all, don't make it too easy on yourself. A little pain today can save a lot of pain tomorrow.

After completing the first draft of your financial plan, you should discuss it with your spouse or partner (or an interested person you can trust) and agree upon whatever adjustments you need to make in your plan to achieve your financial objectives. For most people the primary objective would be to achieve positive cumulative cash flow each year during your working years. Longer term, your objective might be to simply have enough money accumulated to live to age 100 with nothing left after that. Alternatively, you may have a number in mind that you would like to leave to family and charitable organizations at your death. Your plan provides the opportunity to program the achievement of your objectives, whatever they might be.

NET WORTH STATEMENT

There are two ways to increase net worth. The first is to increase the value of assets. The second is to decrease liabilities.

As we have seen, one of the key drivers of the net worth statement is the positive/negative cash flow from row 83 of the cash flow statement. Row 89 from the current assets portion of the net worth statement is the cumulative positive/negative cash flow…a key element of future wealth building. The growth in value of other line items such as equity securities, fixed income securities, 401(K)/403(B) plans, IRAs and real estate are significant contributors to the building of a strong net worth statement over time as well. In addition, the reduction of debt is the other side of the coin that builds net worth. Principal payments on self-amortizing loans such as mortgages and installment loans achieve this.

Whatever your final plan looks like, over the years it will hopefully show an increasingly positive number for cash and cumulative cash flow on row 89. If it does not, you haven't done enough work with the first part of this chapter about creating positive cash flow.

Ben & Vera: The cumulative cash flow can be subtracted from row 89 and added to another line, say to taxable fixed income securities, for a more permanent investment. This would have the effect of increasing the projected return on the transferred funds from 1% to 4%, as different investment return rates have been applied on the "Assumptions" worksheet. You will recall that such transfers were done both for taxable and tax exempt fixed income securities as well as equity securities in Ben and Vera's plan.

Ben and Vera's net worth (row 134) will grow very significantly over time if the assumptions they have made in their plan prove to be reasonably accurate. The "miracle of compounding" really shows its face here, as their net worth increases from under $400,000 in the initial planning year to almost $5 million by age 100…and that's after providing for all of their living expenses for sixty years! Albert Einstein said, "The most powerful principle I ever witnessed was compound interest." Ben Franklin called compound interest "The eighth wonder of the world."

It is very easy to play "what if" by changing these numbers to see what the results would be. For example, if Ben had a windfall opportunity and took a job in 2013 for $200,000 annually, how would that affect their net worth at retirement, or at age 100? Simply go to cell reference E14 and change the number to $200,000. Then go to cell reference BJ134, where you can see that the net worth has been increased to almost $11 million. Actually the impact could be larger, as Ben and Vera would have the opportunity to invest the greater cumulative cash flow from his larger salary at higher investment returns. (Now put the salary back where it was by clicking on the “Undo Typing” arrow.) Changes of this kind can be made to any line item to see what the impact would be on net worth, positive/negative cash flow, cash and cumulative cash flow, and other line items.

Your Plan: Are you building cash and cumulative cash flow as you scroll to the right in row 89 of your plan? If so, you are on the right track. If not, you need to go back to the cash flow statement portion of the plan and do more work with expenses and/or income. If you are accumulating cash, you should think about how you want to invest this cash to provide a greater return, either through increased income on investments (e.g., fixed income securities) or though capital appreciation (e.g., equities and real estate). This will further build your net worth statement.

Now scroll from left to right on row 134 (net worth) to see if you are continuing to build your estate and if it will last for as long as you might potentially live. If columns in row 134 become negative before the projected end of your life, some action needs to be taken (e.g., maybe you will need to work longer). Something has to give to assure your financial future.

RATIOS

The ratios computed in rows 136-141 are tools to help spot positives in your financial health and also problems. When these ratios deteriorate, or when they fall outside of the range of key levels discussed below, it is an additional sign that the plan needs to be further reviewed and action taken.

Current Ratio = current assets divided by current liabilities. This ratio should be no lower than 100%. A ratio above 100% means that there are sufficient liquid assets that are available within one year to pay obligations that come due within one year. The higher the percentage above 100%, the more likely that short-term assets will be able to meet short-term obligations.

Debt to Worth Ratio = total liabilities divided by net worth. This should be no greater than 100%. A ratio below 100% means that there should be sufficient net worth to pay off all obligations over time. The lower the percentage below 100% the more likely that net worth can support total liabilities.

Non-Discretionary Expenses to Total Income = total non-discretionary expenses divided by total income. There is no magic percentage in this ratio that will define financial health, although a percentage approaching 100% is a prescription for disaster. The lower the percentage, the better. It is most important to watch the trends in this percentage over the years of the plan to be sure that the percentage is headed in the right direction. The higher the percentage, the more strapped you are with fixed expenses in relation to your income that can be very difficult to reduce or eliminate without severe lifestyle restrictions.

Discretionary Expenses to Total Income = total discretionary expenses divided by total income. Again, there is no magic percentage that will define financial health. The lower the percentage, the better. As with the above ratio, watch the trends in the percentage over the years of the plan to be sure that the percentage is trending lower. The higher the percentage, the more expenses you have in relation to your income that are controllable and can perhaps be reduced or eliminated. This ratio will typically be considerably lower than the non-discretionary expenses to total income ratio. While a relatively high or increasing discretionary expense to total income ratio can be serious, it is not as serious as a high or increasing non-discretionary expense to total income ratio due to the greater ability to control these expenses when necessary. During years in which asset purchases are made, the ratio may be artificially skewed to a high level that should not be taken as a concern.

Total Expenses to Total Income = total expenses divided by total income. This ratio combines the expenses from the previous two ratios and measures the total against income. If the number is less than 100%, positive cash flow is being generated for that year. If the number is greater than 100%, there will be a cash flow deficit. Reviewing this row is largely the same as reviewing the row for positive/negative cash flow, except it is expressed as a percentage rather than in dollar terms.

Savings Rate = positive/negative cash flow divided by total income. This is the percentage of your total income you are saving. The larger the percentage the better. Americans are notoriously poor at saving, with only a 0%-3% savings rate. The Japanese, on the other hand, have a savings rate of greater than 10%. When there are unusual transactions in some years, such as purchases or sales of assets for large dollar amounts, this ratio may be largely meaningless for those years.

<u>Ben & Vera</u>: The current ratio in row 136 is superb and improving over the years, due to their very low short-term debt.

The debt to worth ratio declines rapidly as they build assets while at the same time reducing debt due to their decreasing mortgage balances. Non-discretionary expenses to total income is rather high, but it reduces each year to become more and more manageable. At age 62 it leaps upward when their salaries stop at retirement, but soon thereafter begins a descent to acceptable levels.

Discretionary expenses to total income remains within an acceptable range except for the year Ben reaches age 62, when a large number of securities purchases create an artificially high ratio.

The total expenses to total income ratio declines continuously until they retire, at which time the ratio fluctuates widely for most of the years until age 100 due to securities purchases as well as the need to draw on assets to support their retirement. Fortunately, due to the accumulation of cash and the fixed income and equity securities they have accumulated, they can easily handle this.

While starting in small number territory in the early years of the plan, their savings rate builds rapidly until their retirement. The negative numbers are not a concern at that point. They are using what they have accumulated to support them for the rest of their lives. And some of the numbers are skewed due to securities transactions.

Ben and Vera's plan could still use some fine tuning and many adjustments will no doubt need to be made as their circumstances change, for better or worse, over the many years of their lifetimes. But if their planning assumptions are anywhere near correct, it would appear that they will readily achieve financial security for the rest of their lives and be in a position to leave substantial inheritances.

Your Plan: Don't be at all intimidated if the initial draft of your plan, or later drafts, don't have similar ratios to Ben and Vera's plan. Their plan is given purely for demonstration purposes and is more an ideal than reality. As you continue to work with your plan, you will begin to develop a feel for the most important elements of it and what to look for to continually improve your financial position. The ratios will also become second nature to you and will be a guide to watching and improving your financial health.

"In theory, there is no difference between theory and practice. But, in practice, there is."

Jan L.A. van de Snepscheut

Recording Actual Results

5

If you bring up both the "Planning (Sample)" and the "Planning" files you will note that there are tabs for four worksheets within each of these workbooks. The fourth worksheet is named "Actual." Click on this tab for the "Planning" file. Scroll down to the right. What you see is essentially the same format as the "Projections" worksheet, except that there is no data in the cells other than for a few lines for formatting that have to do with addition, subtraction and computation of ratios.

The "Actual" worksheet is what you will use to keep track of how you have done each year, so that you can compare it with your plan. Now delete the same number of columns on the right-hand side of the "Actual" worksheet that you deleted from your "Projections" worksheet so it ends in the year you have chosen.

As indicated previously, the net worth statement data in column B pertains to January 1 of the initial planning year. The data in column B for the cash flow statement is for that entire first planning year. Therefore, on January 1 of the second planning year you will have completed the first actual year of results and can prepare the actual net worth statement for the beginning of the second year.

Of course you must have a recordkeeping system for your income and especially your expenses so you have the information to enter into the "Actual" worksheet. This can come from wage statements, canceled checks (or your check register), credit card statements, online bill payment reports, etc. Some expenses may need to be tracked manually during the year.

Let's look at the data that Ben and Vera have entered into the "Actual" worksheet on the "Planning (Sample)" file. The net worth statement in column B reads exactly the same as the "Projections" worksheet, as these were actual starting numbers for the first planning year that they had entered. At the end of the first planning year, they entered all of the actual results into the various rows under column B of the cash flow statement. Then they completed the net worth statement in column C as of January 1 of the following year.

What results did they achieve and how did it compare with their plan? Obviously things can and do happen in the course of a year that change actual results from expected results. This was no different for Ben and Vera. We will focus on the line items where actual results differed materially from their plan. By clicking back and forth between the "Projections" worksheet and the "Actual" worksheet it is easy to spot where the differences lie.

SIGNIFICANT DIFFERENCES BETWEEN ACTUAL AND PLAN

Let's start with the cash flow statement.

SOURCES OF FUNDS:

- Net business income was somewhat less than plan.
- Vera's income was slightly above plan (she got a small unexpected raise).
- Vacation property rental was well under plan. Due to the economy, people seemed to be taking fewer vacations, so their property was more difficult to rent.

Overall, their sources of funds were about $1,200 less than planned.

USES OF FUNDS:

- Child care was up significantly. Vera had to change providers. She is very happy with the new provider, but unfortunately the cost is higher.
- Medical/dental expenses not covered by insurance were higher due to some crowns that Ben had to have for his teeth. Since the dental insurance only paid for half of this, the out of pocket expense was higher than anticipated.
- Vehicle expense was materially higher than plan. Perhaps they underestimated this expense.
- Charitable contributions were higher, as their church started a fundraising campaign to add a new wing onto the building, to which they contributed.
- Entertainment was somewhat higher than plan. A new "junior theater" was established and they decided to buy season tickets to attend with their son.
- Miscellaneous expenses were modestly higher than plan. These are very difficult to identify without detailed records.
- Travel/vacations were substantially higher than plan. Their neighbors wanted them to go to Disney World with them. Both families have boys about the same age, so the Savin's decided they would all go together, resulting in a more expensive trip than they had initially planned.

Overall, their expenses were over $6,000 greater than planned. The net result for the year was negative cash flow of almost $7,000.

How did Ben and Vera finance this negative cash flow? It has to show up somewhere in the net worth statement for the beginning of the second year. Let's find it by looking at column C.

***THE NET WORTH STATEMENT*:**

- Cash and cumulative cash flow is over $3,000, substantially above plan. We know they had a deficit in cash flow for the first year, so the cash must have come from some other source.
- Equity investments, 401(K)/403(B) plan, education fund and IRA are all modestly above plan, apparently due to market performance. Additions were made to their plan according to the cash flow statement, but no withdrawals were taken.
- The vehicle replacement fund shows a $0 balance, where the plan indicates the balance should be over $10,000.

Since Ben and Vera's expenses exceeded their income for the first planning year (as opposed to a small positive cash flow in their plan) they needed to find a source of funds to cover the deficit. Rather than borrow money or try to reduce some of their expenses during the year, they decided to pirate their vehicle replacement fund. This actually increased cash by about $3,000, since the amount in the vehicle replacement fund was about $10,000 and the cash flow deficit was about $7,000.

TIME TO TAKE ACTION

Ben and Vera made it through the year, but have they given up on the idea of trying to save in advance to purchase their next vehicle? Perhaps…perhaps not. If they still plan to save in advance, they are now going to have to start over and contribute higher amounts in order to get back to the position they had planned to be in. This will be difficult, as it will require more cash flow to get there. That means increasing income or cutting expenses, and perhaps some tough choices. They avoided the tough choices during the first planning year. Whether consciously or unconsciously, they concluded that the value of such things as crowns for Ben's teeth, contributing to their church building fund, attending the new junior theater with their son and a more expensive vacation with neighbors were more important than their savings fund for their next vehicle. These are the kind of lifestyle issues we all face ourselves as we live our lives. Some of these things just happen to us, some are conscious decisions we make. All of them affect our financial health.

At this point, Ben and Vera should take a serious look at their plan and their first-year results to see if negative trends are developing that would significantly alter the achievement of their plan in the future, or if most of the negative results were a one-time occurrence. They need to evaluate the importance to them of saving in advance for a new vehicle. If they scrap that idea, they must recognize that the money will not be there when the time comes and they will either need to delay the new purchase, borrow money to finance the vehicle, or liquidate other assets to pay for it. The last two options would have a negative effect on cash flow and ultimately their net worth.

Results like these should cause us to take a hard look at our expenses to see where we can cut back to improve our results. It is a continuing and never-ending process. In good times (when the economy is doing well, job promotions and raises are plentiful and the stock market is rising), the bad things can often be hidden beneath the surface by the good things. During bad times (a soft economy or recession accompanied by job layoffs, a declining stock market), the problems surface quickly. As investment guru Warren Buffett says, "You never know who is swimming naked until the tide goes out!"

In examining your results vs. your plan, be prepared to do some soul searching and to take action as quickly as possible. You don't need to wait until the beginning of a new plan year to review the numbers. Do your best to keep abreast of any problems that develop during the year…and then have a bias for taking action before things can deteriorate any further. Your plan will thank you for it.

Personal Financial Planning Tips

6

As stated previously, this is not a book about the details of how to successfully build an estate and become rich. Our purpose is to apply your knowledge…what you already know and what you will learn in the future…to an Excel® database in order to perfect a plan that will achieve your financial goals. You will, however, find a brief summary of some tips for effective financial planning beginning on the next page. Understanding the full significance of these tips, along with using the knowledge base available to you to learn more about them, is critical to implementing a successful long-term financial plan.

For example, it does little good to say that significant investment in the stock market is important to almost everyone trying to accumulate wealth if many of us don't understand what stocks are, how the stock market works and how to go about acquiring a diversified portfolio of stocks, mutual funds or Exchange Traded Funds that will do well for us.

It is pointless to talk about the need to participate in a 401(K)/403(B) plan, or to establish a traditional IRA or Roth IRA account unless it is understood why this is important, how they work, how to get them, and what to do about investing the assets when you have them.

If you are not well grounded in the subjects comprising the following ideas, please review the "Suggested Reading" section in the Appendix. It lists recommended books that will provide the authoritative background knowledge you need to capitalize on these wealth-building ideas. In other words, without the knowledge behind the principles of sound personal financial planning, simply placing numbers into an Excel® worksheet is not going to make you rich or assure that you will achieve your financial objectives. Other good books can be found at bookstores or by visiting online retailers such as Amazon.com. Using the search tool, then reading the book reviews can be very useful.

TIPS FOR SUCCESSFUL FINANCIAL PLANNING

Build an Emergency Fund: Start building an emergency fund that you can tap on a moment's notice (e.g., savings account, money market fund) before you do anything else. Continue to add to this fund until it reaches the equivalent of at least three months of your take-home pay. If your net worth is very small, six months is recommended. As your wealth increases and you have stocks and bonds to fall back on in an emergency, less may be necessary.

Own Risk Insurance: Insure your most serious risks, including life, health, disability and liability. The type and extent of your coverage can vary significantly based on the number of dependents you have, the level of wealth you have accumulated, and other factors. Use the most cost-effective types of insurance that will cover your risk (e.g., life insurance policies should not be used as a savings mechanism…term insurance, not cash value policies, should generally be your choice). Health insurance is a major issue for all people. Be sure that all of your decisions take this great need into consideration. Over 44 million people in the United States today have no health insurance coverage. As your wealth increases, consider adding long-term care insurance. In the event of a stroke or other physical impairment that may require long-term assistance, your net worth could be significantly depleted.

Build a Savings Fund for Major Items: Start saving for some of the more substantial purchases you will make in the future (depending on your personal financial goals). This might include, among other things, funds for a vehicle, down payment on a house and purchase of furniture, education expense (for you and/or other family members), purchasing/starting a business. (Note: It will work to combine these funds with the funds in your emergency account, but don't confuse the purpose of these funds with emergency funds. If they are combined, keep track of them separately so you don't "rob Peter to pay Paul."

Establish and Maintain a Superior Credit Rating: Do some borrowing with your bank of choice and apply for a few credit cards (only a few!). You need a financial history with the credit bureaus to have a good credit rating. Always pay your bills on time or you risk a negative credit rating.

Borrow Some Money: While it is important to do some prudent borrowing to establish your credit reputation, do your very best to follow this guideline whenever possible: borrow money only to build your net worth, not to buy material things you want. Three of many examples of this positive use of credit would be buying a vehicle needed for a job, borrowing to buy a good business and borrowing to buy a home. The American way is to borrow for everything you want so you can have it now. This is one reason why few people ever achieve their financial goals.

If you already have high-interest debt, pay it off as soon as possible. This will likely be your very best investment. If you have credit card debt at a 10%-20% interest rate, what else could you do with your money that would benefit you more?

Prepare Your Own Income Taxes: Learn how to do your own income tax returns, at least while you are in your income producing years. While this can be done manually, it is far easier to do it on a computer with an inexpensive annually purchased program such as TurboTax®. Such software will not only complete your tax returns, it will provide you with an education about personal income taxation in the process. You will save money by doing your own returns instead of paying someone to do it, but more importantly you will understand the dynamics of your own tax situation far better than if you simply take the proverbial shoebox of tax information and turn it over to an outside preparer. You can very easily use the tax software to prepare your return on a pro-forma basis a year ahead of time. By doing so, you can anticipate many tax planning opportunities early on and also be able to quickly adjust to any new circumstances that affect your tax situation. Understanding your taxes is an integral part of building positive cash flow and your net worth. Valuable information is available on the IRS Web site (www.irs.gov).

Build Long-Term Investments: Keep part of everything you earn. Use payroll deduction to transfer 10%, or as much as you can, directly to an investment account of your choice. If you are self-employed, see if your bank will transfer a fixed amount monthly for you automatically from your bank account to your investment account. The money you never see will not be missed as much. Americans save little to nothing, while continually borrowing more. Therefore, what could be going to asset accumulation is used for debt repayment.

Invest in the Stock Market: As you accumulate excess funds (beyond your emergency fund and the savings fund for major items), start investing in the stock market (equity securities). This can include individual stocks, mutual funds and Exchange Traded Funds, depending on your own investment knowledge. This applies to both personal and retirement accounts. While not without risk, high quality equity investments have provided returns over many decades that are superior to other forms of investments. The percentage of your assets allocated to stocks should take into consideration your risk tolerance and the number of years to retirement.

Own Real Estate: You should own your own home or have some participation in real estate, depending on your personal needs and expertise. Despite some setbacks, well selected real estate is one of the best performing assets as a long-term investment. Home ownership, in particular, has important tax benefits as well.

Diversify Your Investments: As important as stocks and real estate can be in accumulating wealth to achieve your financial objectives, be sure to diversify your investments to include not only a varied group of equities and real estate, but also cash and fixed income securities. A well diversified portfolio will weather any economic storm.

Plan Your Retirement Now: Start planning for retirement now, regardless of your age. This should include participation in 401(K)/403(B) plans, traditional IRAs and/or Roth IRAs, and building personal investments. If you are not self-employed, working for a company that offers a traditional defined benefit pension plan can provide additional retirement security, although such companies are becoming increasingly hard to find.

Plan Your Estate: Educate yourself about the important elements of estate planning…the implications of using joint tenancy in titling your assets as opposed to owning assets in your own name; the need for a will and perhaps a trust; coordination of beneficiary designations on life insurance, 401(K)s, 403(B)s and IRAs with your estate plan; the value of a durable power of attorney. Even though this is listed toward the end of the list, don't put it off until last. The way you title real estate, bank and brokerage accounts, vehicles and other assets has important implications. Know what they are, and plan for your death early in your life. If you don't have your own plan, the state where you die will decide for you where your assets go.

Continuously Build on Your Financial Planning and Investment Knowledge Base: Whoever said "Ignorance is bliss!" and "What you don't know won't hurt you!" certainly didn't know anything about personal financial planning and investing. The more you know, the better opportunity you will have to achieve your financial goals and the better you will be able to do the work yourself. After all, is there anyone who knows more or cares more about your tax situation, your investments, your retirement, your financial future, your goals and your dreams than you?

GLOSSARY

401(K) – A retirement savings plan that permits an employee of a for-profit organization to set aside a portion of salary into a tax-deferred account before it is taxed, usually offering a variety of investment alternatives. Income and capital gains are sheltered from taxes until the funds are withdrawn. The employee's contributions to the plan may be matched by the employer up to a certain limitation, or they may not be matched.

403(B) – A retirement savings plan that permits an employee of a not-for-profit organization (religious, charitable, scientific, educational, and other public interest-oriented institutions such as private schools, colleges, universities, research institutions, and teaching hospitals) to set aside a portion of salary into a tax-deferred account before it is taxed, usually offering a variety of investment alternatives. Income and capital gains are sheltered from taxes until the funds are withdrawn. The employee's contributions to the plan are generally not matched by the employer.

529 COLLEGE SAVINGS PLAN – A tax-advantaged savings plan offered by all states to save funds for college or university tuition, room and board, books, supplies, and other qualified higher education expenses. Income and capital gains grow tax deferred, and withdrawals are federally and sometimes state tax-free when used for qualified education expenses. A wide range of investment alternatives is typically available. Some states may offer a state income tax deduction for residents who invest in their own state's plan. Be sure to find a plan with reasonable fees.

AMORTIZATION – The schedule of payments for paying off a loan. While the amount of each payment remains the same, the portion of the payments allocated to interest decreases and the portion allocated to principal increases until the loan is paid in full.

ASSET – Something of monetary value that is owned.

CAPITAL APPRECIATION – An increase in the market value of an asset.

CAPITAL DEPRECIATION – A decrease in the market value of an asset.

CASH FLOW – The amount of net cash generated during a specific period, calculated by subtracting all uses of funds (expenses, investments, etc.) from all sources of funds (income, gifts received, loans taken out, etc.).

CELL REFERENCE – The letter and number combination, such as B9, that identifies the column and row intersection of a cell in an Excel® worksheet.

COMPOUNDED RATE OF RETURN – The annual rate of return earned on an investment in which dividends, interest or capital gains are reinvested at the same rate of return.

CONSUMER PRICE INDEX (CPI) – A measure assessed by the government of the cost of living (inflation) for consumers compared with a base period.

COVERED CALL WRITING – An investment for ETF owners and shareholders of individual companies who are generally seeking a conservative way to increase income from their shares by selling (writing) call options on the shares they own. There is also the opportunity for a defined amount of capital appreciation and the shareowner receives any dividends. The option writer receives premium income in exchange for assuring that the buyer of the option can purchase the shares at an agreed price during the operative time period of the option contract.

CURRENT ASSET – Cash, or an asset that could be converted into cash within a period of one year.

CURRENT LIABILITY – An obligation or debt that is due within one year.

CURRENT RATIO – A measure of ability to meet short-term obligations. It is calculated by dividing current assets by current liabilities.

DEBT TO WORTH RATIO – The relationship between funds provided by creditors and those provided by an individual. It is calculated by dividing total liabilities by net worth.

DISCRETIONARY EXPENSE – Expenses that can largely be controlled or which may be more readily reduced or eliminated if necessary.

EQUITY SECURITIES – Investments in individual common stocks or in mutual funds and Exchange Traded Funds (ETFs) that are comprised of common stocks.

EXCEL® - A database and spreadsheet program developed by Microsoft Corporation that provides great flexibility in managing and manipulating numbers and other data for recordkeeping and development of "what if" scenarios.

EXCHANGE TRADED FUND (ETF) - ETFs represent shares of ownership in portfolios of common stocks, and in a few cases bonds, which are designed to generally correspond to the price and yield performance of their underlying portfolios of securities, either broad market, industry sectors, regions, investment styles, or international. ETFs give investors the opportunity to buy or sell an entire portfolio within a single security, as easily as buying or selling a share of stock. They offer a wide range of investment opportunities.

FIXED INCOME SECURITIES – A security such as a bond or preferred stock that pays a constant investment return. The value of the underlying security fluctuates primarily with changes in interest rates.

INFLATION – The increase in price level of goods and services. The overall level of inflation is measured by the Consumer Price Index (CPI).

IRA (TRADITIONAL) – A retirement account into which an individual may set aside earned income for investment, the growth on which is tax-deferred. Contributions, subject to limitations, are tax deductible, and withdrawals are taxable. A broad array of investment alternatives are available.

IRA (ROTH) – A more recent type of IRA plan, established by the Taxpayer Relief Act of 1997, which allows individuals, subject to certain income limits, to save for retirement while allowing the investments to grow tax-free. Contributions to the plan are not income tax deductible, but withdrawals, subject to certain rules, are not taxed. A broad array of investment alternatives are available.

LIABILITY – An obligation to pay an amount to another party, often with interest.

LONG-TERM – Relates to the gain or loss in a security that has been held for a certain period of time. For example, to qualify as a long-term capital gain under current tax laws, a security must be held for twelve months or more.

LONG-TERM ASSET – An asset owned that is intended to be held for a period of longer than one year.

LONG-TERM LIABILITY – An obligation or debt that is not due for longer than one year.

MUTUAL FUND – An investment company that continually offers new shares and stands ready to redeem existing shares from the owners. Because the shares are purchased from and sold to the investment company, these shares are not traded on stock exchanges like common stocks and Exchange Traded Funds. The assets of an equity mutual fund consist of a portfolio of common stocks, while the assets of a bond fund are composed of debt instruments.

NET WORTH – A measure calculated by subtracting total liabilities from the total market value of assets for an individual or family.

NON-DISCRETIONARY EXPENSE – Expenses which are viewed as mandatory and over which one has little or no control.

PRO-FORMA – As related to financial statements, one which is constructed from one or more projected amounts.

PUT OPTION WRITING – An investment strategy for investors who are generally seeking to increase income by selling (writing) puts on individual stocks or ETFs without owning them. The option writer receives premium income in exchange for assuring that the buyer of the option can sell the shares to the writer at the agreed price, which is lower than the current market price, during the operative time period of the option contract.

SAVINGS RATE – The percentage of total income that an individual is able to save.

SOURCE OF FUNDS – The means from which an individual derives income or other cash flows such as earnings, proceeds of loans, gifts and liquidation of assets.

USE OF FUNDS – The ways in which an individual applies funds to liquidate obligations, pay expenses and increase ownership of assets.

WORKBOOK – The basic Excel® document, consisting of one or more worksheets.

WORKSHEET – A page in an Excel® workbook.

APPENDIX

SOME KEY EXCEL® FUNCTIONS

Loading an Excel® File from Our E-mail

To load an Excel® file, double click on the Excel® program icon attached to the e-mail.

Saving Excel® Files from the E-mail to Your Hard Drive

To save an Excel® file to your hard drive for the first time, click on the "floppy diskette" icon on the toolbar (or on the main menu bar click first on "File" then "Save As"). Next, click on the box to the right of where it says "Save in." Select the directory where you wish to save the file by clicking on it. Finally, click on "Save" in the bottom right-hand corner.

Renaming Excel® files

To save a file under a different file name (whether it has previously been saved or not), follow the instructions immediately above for saving Excel® files. Just before clicking on the "Save" button, place your cursor into the box to the right of where it says "File name:" and delete the current name by backspacing or using the "Del" key. Type in the new name you wish to use for the file. Finally, click on "Save" in the bottom right-hand corner.

Removing Data from a Cell

Data and formulas can be removed from a cell simply by placing the cursor in the cell and pressing the space bar. If, for example, you are completing your plan and you are single, you could place the cursor in cell A3 then press the space bar to remove the text for the second name. The same could be done for the ages on row 3.

Undo Typing

If you enter data into a cell or make any changes to information in a cell and want to reverse it back to the way it was before you made the change, click on the "left pointing arrow" icon on the toolbar (or on the main menu bar click "Edit" then "Undo Typing.")

Use of F2 Key to Add Information

If you wish to add or change information in a cell that already contains data, place the cursor in the cell you wish to change, press the "F2" key, and add the information. For example, let's say that Ben expected to receive a gift of $25,000 in equity securities from his rich aunt in 2013. He should go to cell reference E90 on the "Projections" worksheet, press "F2", and at the end of the formula type in "+25000" to add the gift. Try this to see how it works (then click "Undo Typing" when you are finished).

Copy and Paste

Go to cell D8 on the "Projections" worksheet of the "Planning (Sample)" file. Press the space bar and then press "Enter." You will see that the formula that was in cell D8 is no longer there. You can add the formula back in by "replicating" it from cell C8. Place your cursor in Cell C8. Then click on the "copy" icon on the toolbar (or on the main menu bar click on "Edit" and then click on "Copy"). Now place the cursor back in cell D8. Finally, click on the "paste" icon on the toolbar (or on the main menu bar click on "Edit" and then click on "Paste"). You will see that the original formula is back in cell D8.

After you save your workbook file under a new name, if you ever make a mistake in one or more cells and want to restore the cells to the way they were on the e-mail "Planning" file, just place the cursor on the cell reference in the worksheet of the original "Planning" file from the e-mail, click on "Copy," then go to the same cell on your worksheet where the mistake was made and click "Paste." The cell will be restored to its original condition.

Using the "Unprotect Sheet" and "Protect Sheet" Command

Using Excel®, open up the "Planning (Sample)" file so that the "Projections" worksheet is displayed on your monitor. Click on "Tools" or "Review" on the main menu bar (depending on which version of Excel® you have. Next click on "Protection," and then "Protect Sheet." A box will appear enabling you to insert a password so that only users in possession of the password can remove the protection. Do not enter a password unless you want only those with the password to be able to remove the protection…simply leave the information blank and click on "OK." Now try to type something into any of the cells on this worksheet. You will find a message that, in part, reads "The cell or chart you are trying to change is protected and therefore read-only." This appears when all or any part of a worksheet has been protected so that no changes can be made. To remove the protection, click on "Tools" or "Review" on the main menu bar, next click on "Protection," and finally click on "Unprotect sheet." Changes can now be made to the worksheet again. You can protect and remove protection from any worksheet by doing this.

Deleting and Inserting Columns

If you would like to delete one or more columns from a worksheet, place your cursor at the top of the column directly on the column reference letter you wish to delete. The entire column should be highlighted. (If you wish to delete two or more contiguous columns, click on the first column, holding down the left mouse button, and drag the cursor along the columns you wish to delete until they are highlighted). Right click on your mouse and select "Delete." The columns will be gone.

One or more columns can similarly be added by placing the cursor where the addition is desired. Right click on your mouse and select "Insert."

The same capabilities exist to delete and add rows. We highly recommend that you do not delete or add rows to any of the workbooks associated with this program, even though you may not use the rows. Formulas needed in other rows may be affected.

Other Changes

If you are proficient with Excel®, the worksheets provided with this e-Book can accommodate almost unlimited flexibility for customization. Be sure you save your work before trying to make significant structural changes in case you need to revert back to your last saved file.

QUESTIONS

If you have a question about this e-Book or the use of this program, we would be pleased to respond if you will submit it to us in an e-mail addressed to arrowpublicationsUSA@gmail.com. We will attempt to answer questions as quickly as possible.

If your question is one that would be of general interest, we will post the question and response on our Web site, www.arrowpublications.net. You can view this question and answer page by clicking on the picture of this e-Book on the site's home page and then clicking on the "Questions/Answers" tab.

We would also be pleased to hear from you about any changes you would recommend to improve the e-Book and the worksheets.

SUGGESTED READING

BOOKS ABOUT EXCEL®

Excel® for Dummies by Greg Harvey, paperback, 365 pages. This is a great reference book for the beginner at Excel®. It begins with the basics of pointing and clicking, entering data and figuring out different parts of a worksheet. It also covers more advanced topics. Written in the typical *Dummies* book style. Currently available over the Internet through Amazon.com.

Teach Yourself Visually Excel® 2002 by Nancy Muir, paperback, 320 pages. This book uses a proven visual approach to the use of Excel®. It covers the essentials a new user needs to know as well as more advanced topics. Currently available over the Internet through Amazon.com.

BOOKS ABOUT PERSONAL FINANCIAL PLANNING

Ernst & Young's Personal Financial Planning Guide by Ernst & Young LLP, paperback, 329 pages. This book details the concepts of wealth-accumulation including investments, insurance, estate planning and the impacts of key life events. Currently available over the Internet through Amazon.com.

Making The Most of Your Money by Jane Quinn, hardcover, 1072 pages. Solid, practical advice on investing, buying a home, paying for college, life and health insurance, retirement planning, checklists for life changes and finding a financial advisor. Currently available over the Internet through Amazon.com.

You Don't Have to be Rich: Comfort, Happiness, and Financial Security on Your Own Terms by Jean Sherman Chatzsky, hardcover, 256 pages. Not your normal book about personal financial planning. In the research for her book, Chatzky found that unless you're desperately poor, money can't make you happy. But it can--if you're handling it wrong--make you miserable. Written in Chatzky's popular, down-to-earth style and filled with fresh insights, her book proves that your money doesn't have to be a source of stress, but can instead be the path to comfort and financial freedom it was always meant to be. It can help you reclaim your financial life. Currently available over the Internet through Amazon.com.

Personal Finance for Dummies by Eric Tyson, paperback, 490 pages. This book from the "Dummies" series offers sound and practical advice for those who want to get control over their personal financial lives. Author Eric Tyson points out the most common mistakes that we all make in our approach to money and prescribes ways to save and invest for a secure future. The book helps you to measure your own financial health by looking at factors such as how much debt you carry, your savings rate, as well as investment and insurance checkups. The book looks at how you should invest your retirement account, approach taxes, and provides a good overview on how to buy real estate. Currently available over the Internet through Amazon.com.

Personal Financial Planning by G. Victor Hallman and Jerry S. Rosenbloom, hardcover, 500 pages. This text is an extremely comprehensive and detailed financial planning resource for private individuals and professional money managers. Not the best book for beginners, but a valuable source of information for serious planners who want a substantial and thorough education on all aspects of planning. Currently available over the Internet through Amazon.com.

Suze Orman's 2009 Action Plan: Keeping Your Money Safe & Sound by Suze Orman, paperback, 209 pages. Suze Orman, believes that this is a critical time for your money. Safeguards need to be put in place, there are actions to take, costly mistakes to avoid, and even opportunities to be had, to assure you are protected during the bad times and ready to rebound when things take a turn for the better. No matter what situation you're in, you will find the answers to your questions about credit , retirement, savings and spending, real estate, paying for college and protecting your family. She has many published many other books on financial planning subjects as well. Currently available over the Internet through Amazon.com.

BOOKS ABOUT IRA ACCOUNTS

New IRAs and How to Make Them Work for You by Neil Downing, paperback, 224 pages. Tax-cutting legislation transformed IRAs in ways that will impact millions of Americans for years to come. Downing's guide is an indispensable, plain-language road map to help investors take advantage of the new rules. Currently available over the Internet through Amazon.com.

Fairmark Guide to the Roth IRA by Kaye A. Thomas, paperback, 234 pages. This book makes it easy to learn how to get the most from a Roth IRA. In plain language it covers: (1) Choices: Deciding whether the Roth IRA is best for you, and where to establish your Roth; (2) Contributions: How to build wealth for yourself, your spouse, even your child; (3) Conversions: Determining when and how to convert a traditional IRA to a Roth IRA; (4) Distributions: How to withdraw money from your Roth IRA without paying tax or penalties; (5) Strategies: Situations where the Roth IRA can provide special benefits. This book is a complete, authoritative guide to Roth IRAs, covering all the rules and explaining strategies that will help you build and preserve retirement wealth. Currently available over the Internet through Amazon.com.

BOOKS ABOUT STOCKS

The Wall Street Journal Guide To Under-Standing Money & Investing by Kenneth M. Morris, Virginia B. Morris, Alan M. Siegel, paperback, 160 pages. This handy fact-filled book initiates you into the mysteries of the financial pages…buying stocks, bonds, mutual funds, futures and options, spotting trends and evaluating companies. A good beginning level investment book. Currently available over the Internet through Amazon.com.

Stocks For The Long Run – The Definitive Guide to Financial Market Returns and Long-Term Investment Strategies by Jeremy J. Siegel, Professor of Finance-the Wharton School of the University of Pennsylvania, hardcover, 388 pages. Siegel's book is a comprehensive and highly readable history of the stock market that dramatically makes the case for long-term investing in stocks. It is probably the best comprehensive text available about the market. An excellent reference for seasoned investors and anyone else interested in how the market works. Currently available over the Internet through Amazon.com.

BOOKS ABOUT SAVING FOR EDUCATION

The 529 College Savings Plan by Richard A. Feigenbaum and David J. Morton, paperback, 230 pages. The book shows in a step-by-step format how to use this new government benefit. It demonstrates how everyone can save for college tax-free, compares the 529 Plan to other savings plans such as Coverdell, Crummey and Prepaid Tuition Credit alternatives, answers "Frequently Asked Questions" about the 529 Plan, specifies the kinds of institutions that are eligible for the 529 Plan, explains such details as qualified higher education expenses, clarifies beneficiary issues, identifies plan managers and explains the 529 Plan requirements for all participating states. Currently available over the Internet through Amazon.com.

529 & Other College Savings Plans for Dummies by Margaret A. Munro, paperback, 384 pages. The book covers all the ins and outs of 529 plans and Coverdell accounts, as well as more traditional saving plans. This straightforward guide helps you estimate future costs and develop a custom savings map for meeting your children's educational goals. Currently available over the Internet through Amazon.com.

BOOKS ABOUT INCOME TAXES

Taxes for Dummies by Sarah Laing, paperback, 632 pages. Good starter book for tax novices. A straightforward book that demystifies forms, minimizes errors, and answers your most important questions. Covers all the tax changes since last year and offers proven, professional advice on keeping more of what you earn. Currently available over the Internet through Amazon.com.

J.K. Lasser's Your Income Tax by J.K. Lasser™ Institute, paperback, 798 pages. This very detailed and comprehensive book provides an easy-to-understand explanation on how to comply with the federal income tax law and take advantage of tax-saving options and plans. Currently available over the Internet through Amazon.com.

BOOKS ABOUT ESTATE PLANNING

Estate Planning Basics (2nd Edition) by Denis Clifford, paperback, 220 pages. Provides concise, straightforward and easy-to-read explanations of the major components of estate planning. Includes estate planning for parents with minor children, wills, living trusts, other probate-avoidance methods, using a retirement plan like an IRA or 401(K)/403(B) as an estate planning device, estate taxes and tax reduction methods. Currently available over the Internet through Amazon.com.

Estate Planning for Dummies by Jordan Simon and Brian Caverly, paperback, 384 pages. Straightforward, reader-friendly guide to planning for your family's future. A guide to help minimize estate taxes, write a proper will, use of trust, keeping your plan up to date, and much more. Currently available over the Internet through Amazon.com.

BOOKS BY THIS AUTHOR ABOUT INVESTING

Covered Call Writing Demystified: Double-Digit Returns on Stocks in a Slower Growth Market for the Conservative Investor by Paul D. Kadavy, comb bound, 328 pages. The definitive education and guide for enhancing the investment returns on your stocks through covered call writing. Includes calculation software using Excel®.

Available over the Internet through www.arrowpublications.net and www.BooksThatBehave.etsy.com at a discount and through Amazon.com.

Covered Call Writing With Exchange Traded Funds (ETFs): Double-Digit Returns, Diversification, Downside Protection by Paul D. Kadavy, comb bound, 182 pages. A complete program for enhancing your investment returns by utilizing covered call writing specifically for Exchange Traded Funds, the hottest new equity investments available today that are increasingly replacing mutual funds. Lists all current ETFs, which offer call writing and a ranking for attractiveness. Includes calculation software using Excel®. Available over the Internet through www.arrowpublications.net and www.BooksThatBehave.etsy.com at a discount and through Amazon.com.

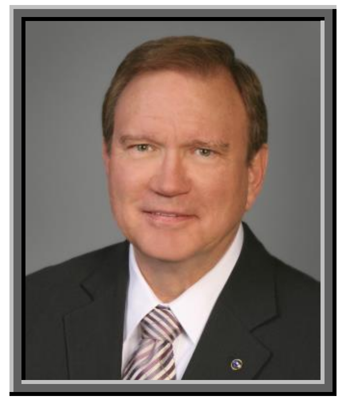
Covered Call Writing With Qs & Diamonds: Double-Digit Returns on Ready-Made Portfolios by Paul D. Kadavy, comb bound, 174 pages. The covered call writing program specifically geared to two of the most popular and highly liquid ETFs that offer strike prices for call writing in $1 increments. Includes calculation software using Excel®. Available over the Internet at a discount through www.arrowpublications.net and www.BooksThatBehave.etsy.com at a discount and through Amazon.com.

Put Option Writing Demystified: Earn Double-Digit Cash Returns While Waiting to Buy Stocks at a Discount by Paul D. Kadavy, 176 pages. The only book devoted exclusively to the subject of a little-known, often misunderstood investment opportunity known as "put option writing." Includes calculation software using Excel®. Available over the Internet through www.arrowpublications.net and www.BooksThatBehave.etsy.com at a discount and through Amazon.com.

Writing Uncovered Put and Call Combinations: Earn Two Option Premiums from One Margin Requirement on Individual Stocks and Exchange Traded Funds (ETFs) Without Owning Them by Paul D. Kadavy, 177 pages. The only book devoted exclusively to a higher risk/higher return options strategy known as “writing put and call combinations” or “strangles.” Includes calculation software using Excel®. Available over the Internet at a discount through www.arrowpublications.net and www.BooksThatBehave.etsy.com at a discount and through Amazon.com.

Short Spider Straddles ~ A Winning Combination by Paul D. Kadavy, 77 pages. An investment strategy utilizing the Standard & Poors 500® ETF known as the “Spiders” (ticker symbol “SPY”). Based on 50 years of historical data, writing a combination of put and call straddles (at-the-market strike prices) can provide above average returns with no knowledge of stock selection. Includes calculation software using Excel®. Available over the Internet through www.arrowpublications.net and www.BooksThatBehave.etsy.com at a discount and through Amazon.com.

ABOUT THE AUTHOR



As a thirty-year career banker and trust officer for Norwest Corporation, now Wells Fargo & Co., one of the nation's largest financial institutions, Paul D. Kadavy was president of numerous banks in three states. He also headed a multi-billion dollar trust department, managed a team of investment professionals, and was a trusted advisor to many of the banks' individual clients. He also subsequently served as president and chief executive officer for another banking enterprise in Las Vegas, Nevada. Now retired from banking, he is a writer, teacher and public speaker.

Kadavy has served as a faculty member of the National Graduate Trust School at Northwestern University, The Schools of Banking, Inc., the American Institute of Banking and numerous community colleges in several states. He was a lecturer on trust, investment and banking subjects to FDIC and Federal Reserve Bank examiners in Washington, D.C. He has been a public speaker for the past twenty-five years.

In addition to authoring *Finding Financial Freedom,* Kadavy has also written the novel *Scattered Ashes* and financial books including*, Covered Call Writing Demystified*, *Covered Call Writing with Exchange Traded Funds (ETFs)*, *Covered Call Writing with Qs and Diamonds*, *Put Option Writing Demystified*, *Writing Uncovered Put and Call Combinations*, *Short Spider Straddles*, *Put and Call Option Writing for the Investment Advisor and Financial Planner* and *The Book of World-Class Quotations*: *The Best of the Best Quotations on Earth*. His books are available on the Internet through Arrow Publications (www.arrowpublications.net and www.advisor-options.com), Etsy.com (www.BooksThatBehave.etsy.com) and Amazon.com.

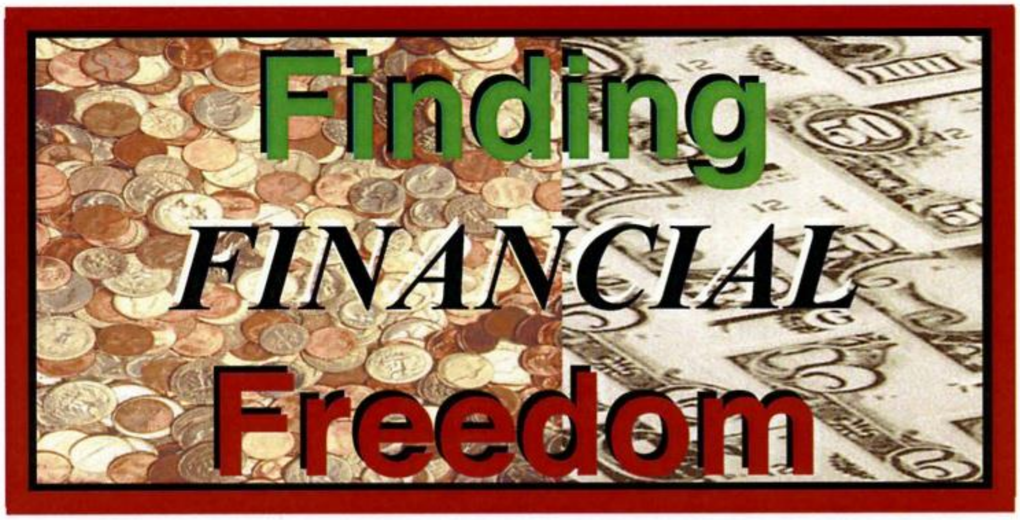
He is the author of banking, trust and investment articles for such national publications as *Financial Review*, *Trusts & Estates*, *Pension World*, *The Collector/Investor*, *Cases & Comment* and *American Bankers Association Trust Management*.

OTHER BOOKS AVAILABLE FROM ARROW PUBLICATIONS

Other books written by Paul D. Kadavy may be found at the following online Web sites:

Arrow Publications: (www.arrowpublications.net)

Amazon.com: (www.amazon.com)



"If you don't know where you're going,
any road will take you there."

This book promises to guide anyone...young and old...to a more secure, fulfilling financial future, regardless of financial status. Will you chart your own course and find your personal road to financial success or follow Yogi Berra's path: "When you come to a fork in the road, take it!"? The answer will likely forever determine whether you are able to achieve financial security, wealth, riches...or whatever words you would use to describe the comfort that comes from reaching your personal financial goals.

After the financial crisis, taking the right road seems to be more important, and more difficult, than ever. In the past, financial security at retirement was compared to a three-legged stool...the legs representing Social Security, a pension and personal investments. Is that stool still standing today? The insolvency of Social Security looms ahead of us. Corporations are converting pensions to less lucrative "cash balance" plans or are discontinuing such plans altogether. And a recent national survey indicated that 60% of Baby Boomers polled believe they will not have enough money to retire. When asked how much money Boomers thought they needed to retire, half claimed they did not know. And the young are woefully unprepared to face their financial future.

After our financial collapse, never before has the need for a carefully crafted lifetime financial plan been greater. Using Excel® or free OpenOffice software, this book and the software provided with it, such a plan is within your grasp. The tools are here to begin the journey of developing your path finding lifetime financial freedom.

U.S.A. $18.95
Canada $19.95