Module 9
Record Keeping, Budgeting, Personal Finance, and Investing

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Learning Objectives

The learning objectives for this module are for participants to:

- Learn the basics of record keeping for business and personal finance.
- Understand and be able to implement components of family budgeting, protection and risk management from the personal standpoint.
- Be aware of different perspectives regarding savings, investing, and personal finance nuts and bolts necessary in maintaining a balance between your business and personal life.
- Know the Rules of the Road of personal finance and investing.

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Introduction
There is the old saying, "If you go the extra mile, you will often find that the road is not crowded." The extra mile in balancing your business and personal lifestyle is how one maintains budgets and records, while having the discipline to save money and invest. Consider several compelling facts. Money management is one of the top reasons for divorce and it is the leading cause of household stress. Insufficient records and difficulties between business partners over personal withdrawals are primary causes of problems regarding family business transition and communication.

Organizing Financial and Physical Records
While living in a complex society, an organized approach to business and personal financial records can reduce the stress of operating a business. Let's examine some basics of record keeping.

Both business and personal records can be divided into two categories: short-term files and long-term files, based upon your need to use each of them. Short term files are oriented toward day-to-day activities, while long term files tend to only be needed periodically, for example, in the case of an emergency or an unforeseen turn of events.

Short-Term Files
Short term files include those from the past year that you may need to refer to immediately. These need to be kept in an accessible place. Examples include:

- unpaid bills
- paid bills
- bank statements
- cancelled checks
- credit card statements
- health records
- income tax receipts for deductions
- major purchase receipts
- insurance policies (personal and business)
- expense receipts
- livestock, crop, and labor records
- pay stubs
- inventories
- receivables
- payables
- records of loans
- financial statements (balance sheets, income statements, etc.)

Long-Term Files
Certain records should be retained for the long term, from 3 to 7 years, or forever. You should clean out your files annually. This should include filing some of the short term files for the past year, and disposing of some long term files that no longer need to be kept. The following table shows examples of some long term files and how long they should be retained.

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LONG TERM FILES
Three Years
• Household bills • Credit card statements • Receipts for minor purchases
Seven Years
• Cancelled checks • Check registers • Bank statements • Paystubs • Tax returns & supporting documentation
Forever (or until 3 years after the assets are sold)
• Receipts for home improvements and major purchases • Warranties and operating instructions for appliances/equipment • Annual investment/retirement account statements • Gift tax returns • Inheritance papers • Insurance policies • Mutual fund statements • Healthcare proxy forms • Legal papers about formerly owned properties • Reports from trusts • Birth certificates • Social Security cards • Burial vault/plot deeds • Wills/living wills/advance medical directives • Powers of attorney • Vehicle titles • Property titles/deeds • Household inventory – list of all your belongings for insurance purposes

ROADSIDE CHAT #1: By the numbers, how long should you keep your tax returns and supporting information?
The IRS can audit you for up to three years from the date you file your return and can pursue underreported income for up to six years. Keeping tax returns and supporting documents for seven years is a quite reasonable approach in keeping tax documentation. However, the IRS can pursue claims of fraud forever!

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Safe Deposit Boxes

A safe deposit box can be a good place to keep important documents, but there are certain documents that should not be kept there because in the event of a death, safe deposit boxes may be sealed and inaccessible even to those with a key. See the table below for suggestions on what to include and exclude from a safe deposit box.

Include	Exclude
• Stock certificates • Coins, stamps, collectibles • Auto titles, mortgages, deeds • Divorce & child custody papers • Videotape/photos of contents of your home for insurance • Adoption papers • Original birth, marriage, and death certificates	• Original copies of wills • Powers of attorney • Living wills & advance medical directives • Insurance policies • Anything needed in the event of death

A Financial "Key"

Chances are, a relative, a neighbor, or a landlord already has a key that would let them into your home or business should there be an urgent need – for example, a fire, water main break, blackout, or an electrical emergency. Leaving a key with someone makes good sense. Likewise, you should create a "key" to your important financial records and make sure someone you trust has possession of it.

Besides leaving a "key" in your house with your financial files, make sure at least one person you trust knows where it might be. A file marked "financial key" or "in case of emergency" in your financial files could be helpful to someone charged with piecing together your financial records.

If you keep electronic financial records, it is important to back-up your files regularly and include instructions for accessing financial records in your "key" information file. This could include the location of the files and any passwords needed to gain access to the information. You might want to keep copies of this electronic back-up in a safe deposit box at your bank or in a fireproof safe in your home.

Sample Financial Key

Item	Where to Find	Whom to Contact
Birth certificate	Safe deposit box	Troy Wilson, esq.
Health care proxy	Safe deposit box	Dr. Yank, M.D.
Will	In safe at house	Troy Wilson, esq.
Insurance policies	In safe at house	Jeff Power, CFP

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ROADSIDE CHAT #2: Are death and taxes the only reasons for keeping financial records?
Of course these are not the only reasons. Keeping financial records organized can assist in making timely payments, proving ownership, disputing errors, documenting claims, proving debt and bills have been paid, and providing evidence of purchases and transactions. An organized record system is also helpful when working with financial professionals – lenders, insurance agents, and financial planners.

You, Inc. #1: Develop your own Financial Key file including items, location, and contact for at least five of your own records.

	Item	Where to Find	Whom to Contact
1.			
2.			
3.			
4.			
5.			

Creating a Budget

A budget is a "to-do list" for your money. It shows how you want to use your money, and thereby helps you gain control of your spending. Your budget should incorporate your desired lifestyle – this allows you to see what changes you might need to make in your spending habits to reach your intended lifestyle. A budget is the cornerstone for financial planning, so sit down for 15 minutes and take your best guesses at what your incomes and expenses will be for the upcoming month. Then, track your incomes and expenses for the month and compare your actual spending to your projected spending. Where did you go wrong? Did you underestimate your food expenses? Did you forget your car insurance premiums that you only pay every 6 months? Did you not realize how much cash you spend out of pocket on "miscellaneous items"? If your actual budget doesn't match your projected budget (and it often does not!) then you need to revise your budget or change your spending habits. Just as it is important to create a budget for your business, household budgets are critical as well. The guidelines discussed here are based on the principles of many popular personal finance programs. Therefore, following the guidelines that are outlined should complement any interactive budgeting you may want to consider.

Budgeting Basics:

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.
- Identify the difference between what you earn and what you spend.

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Create a budget to:
- Get your spending in line with your earnings.
- Change your spending habits to reflect your goals.

Five Important Steps to Understanding Your Personal Finances

After you collect the information suggested here, you may use a ledger, a spreadsheet, or personal finance software to create your budget.

1. *Know what you earn.* List your gross monthly income. Any income you received in the past year that you could reasonably expect to earn in the current year should be included. Most often this includes salary, farm or ranch net income, rental income, investment income, tips, Social Security payments, pensions, royalties, child support payments, or any other regular predictable income. Gifts or bonuses may be included, but only if you are certain that they will be paid in the coming year. The resulting amount represents your gross household income – an important figure for many of the standard financial benchmarks.

2. *Know where you spend it.* Create a monthly list of your expenses. Start with your essentials – shelter, food, clothing – and then move on to those expenses over which you have the most discretion. Be sure to include all payroll and income taxes that have been subtracted from your paycheck. This will come in handy when you are estimating your income tax liability for the year.

   Hint: Credit card bills and bank statements are great places to start creating a budget, especially if you use these cards predictably and frequently. For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it's easy to keep track. Since most people shop for the same types of items at the same stores, you can organize your budget the same way. If you buy groceries at Food Mart, beauty supplies at Beauty Mart, and visit Wholesale Mart once per month for items that you buy in bulk, these can all be line items on your budget.

   Hint: Record all of your expenses as a monthly amount. You may need to divide annual expenses (such as property taxes) by twelve, or spread quarterly payments out over a year. Refer to the "Sample Budget Categories" list as a starting point for collecting your expenses (Appendix I).

3. *Separate essential from nonessential expenses.* Before you compare your income with your expenses, use a highlighter and quickly separate your list into expenses you consider essential and those you consider to be nonessential. This quick step will be helpful when you are looking for places to trim expenses.

4. *Identify the difference between what you earn and what you spend*. Add up your monthly expenses and compare it to your monthly income.

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5. *If your expenses are greater than your income,* it's time to get serious. Next to the line where you recorded last month's expenses, make a new column for your current monthly budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

   Then you should take a serious look at those items that you decided were nonessential to see where you can make cuts. The goal is to create a realistic idea of where you can cut your expenses to bring them in line with your income.

After developing a budget, the most important part is to use it! Track your actual income and expenses monthly, then compare them to your budget and note any variances. Determine if these variances could have been planned for, or if they were "emergency" expenses that were unexpected. Strive to stick to the budgeted amounts in order to stay on track to meet your financial goals.

General Benchmarks for your Monthly Budget

Here are a few rough benchmarks for your monthly expenses. These benchmarks are used in the financial planning industry to help families rein in their expenses:

Consumer debt payments (principal and interest): Consumer debt is any loan or account that you have that is not related to your housing expenses – you can think of it as all of your non-mortgage debt. Examples of consumer debt include auto loans, student loans, and credit card balances. Your monthly principal and interest payments on consumer debt should be less than 10 percent of your monthly income.

Housing debt payments (principal, interest, property taxes, and homeowner's insurance premiums) should be less than 30 percent of your monthly income. Officially, the benchmark is less than 28-30 percent of your gross monthly household income.

Savings ratio: A good rule of thumb to follow is "save at least 10 percent of your income" every pay period. Initially, use this rule to build your emergency account to at least 4 to 8 months worth of living expenses. Once you have reached this goal, continue saving at least 10 percent of your income and use it to pay down debts, invest for future goals or to build your liquid assets for a bigger financial cushion.

Personal Financial and Investing Check-Up

Many people have a tendency to postpone scheduling an annual check-up with the dentist. The result can sometimes be painful, both physically and psychologically, and hurt the pocketbook. The same feeling, though not physical, can be experienced in your personal finances. Professional financial planners recommend a complete analysis of your personal finances on an annual basis. A check-up allows an individual to be proactive rather than reactive in developing a plan for corrective action and reaching your life's goals. The result is financial success and independence now and in the future.

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An extensive personal financial analysis includes examining a wide spectrum of criteria, including a cash emergency fund, credit usage, tax management, investments, insurance, and long-term estate planning. The following is a checklist to evaluate your current financial position. Realize that age, personal and family circumstances, and goals can all influence the interpretation of the results.

Emergency Fund

One of the first steps to financial security is to build a personal or family emergency fund. Include all cash assets that could be turned into cash quickly, without disrupting your normal lifestyle. Examples include cash in checking and savings accounts, cash value of life insurance, and CDs and money market funds that can be withdrawn with little/no penalty. The emergency fund would not include credit lines on home equity loans or credit cards. If you become unemployed or have a tragedy, these sources of credit could be eliminated quickly.

ROADSIDE CHAT #3: Doesn't a credit card represent personal liquidity and an emergency fund?
No. An emergency fund is cash in the bank, money market, or checking account. If a person were to lose their job or have financial difficulty, a credit card could be cancelled or its limits reduced just like farm operating loans. Do not assume that they will always be there - always plan for the worst!

To determine your emergency reserve, divide your liquid cash assets by your monthly gross salary or net income if you are self-employed. Some people have recommended using family living cost, if you have accurate personal budgets. Six to twelve months of reserves or more would indicate strength. Three to five months denotes some vulnerability. Less than three months or no cash reserves mean possible financial stress if an unexpected emergency should occur. The amount you keep in your emergency fund depends on your household situation. For example, you should aim to have more than 6 months of savings if your job or income is not stable throughout the year (i.e. farm/ranch income), if you have a significant amount of household debt, or if several people are dependent on your income.

You, Inc. #2: Now that you know what goes into an emergency fund, let's apply this to your situation. How many months of income are in your emergency fund?

$ amount of cash assets / gross monthly salary or net income = # months of emergency reserve

Credit Card Debt

Individuals who have outstanding balances on credit cards typically have a total balance above $10,000. Also, this balance is often spread over 6 to 15 different credit cards.

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If the total balances on your credit cards exceed 15 percent of your net business income or gross salary, you are in the danger zone. Five to 15 percent represents caution, and less than 5 percent would place you in the safe category. Time of year and past reputation of repayment of credit cards may influence interpretation. Further, having outstanding balances on your credit cards greater than 10 percent of your total credit limit will lower your credit score.

Household Consumer Debt (Excluding Credit Card Debt)
The next step is to add up all payments of household obligations. These include debt associated with vehicles, appliances, college tuition, and any payments to family or friends.

If the total payments exceed 15 percent of your gross salary or net business income, you are in the danger zone; 5 to 15 percent suggests caution, and less than 5 percent is a strong position. Usually, young people who have no mortgage will have a higher consumer debt ratio. To stay on the safe side, try to keep all of your consumer debt payments (including credit card payments) to less than 10 percent of your gross income.

Credit History
Every year, you should request your credit history report. If you have a history of delinquent payments, repossessions, or bankruptcy, you will experience a higher degree of difficulty in obtaining credit. You will probably be charged higher interest rates. Minor delinquent payments on credit cards or financial problems would result in some degree of caution by lenders. If you have a history of being current on payments and have not filed bankruptcy, you are in a strong position to negotiate for credit and interest rates.

Another reason to check your credit history on a regular basis is to identify incorrect information or possible identity theft. These occurrences can have adverse effects on your credit score, so it is best to keep an eye on your credit history. You are entitled to one free credit history report annually from each of the three main credit bureaus. The best way to access your free credit reports is through: www.annualcreditreport.com. This site is maintained in partnership with the US government and it is completely free – you are not signing up for any fee-based credit watch services by accessing this website.

Savings and Investments
Annually, you should analyze your savings, investments, insurance, and long-term estate and financial planning.

If you are saving more than 5 percent of your gross salary or net business income in investments over and above retirement plans at work or business, you would be considered to be in a strong position. One to five percent indicates that you need to increase your savings, while no savings patterns or withdrawals from long-term savings indicate danger. Age, income levels, and retirement goals may influence the

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interpretation of this factor. Again, shoot for a goal of saving 10 percent of your gross monthly household income.

You, Inc. #3: Conduct a savings analysis. What percent of your gross household income have you saved over the past three years?

Retirement Plans

Many individuals have retirement plans through their off-farm employer. You may have a defined contribution plan, such as a pension or profit-sharing plan, which is funded by your employer. You may also have supplemental or "salary reduction" retirement plans such as 401(k) and 403(b) through work. Self-employed business owners might have a SEP-IRA, SIMPLE-IRA, or Keogh plans as a result of owning a business. Further, you may also make contributions to Individual Retirement Accounts (either traditional or Roth IRAs). The choice of investments in these plans ranges from relatively conservative certificates of deposit (CDs) and money market mutual funds to more aggressive stock mutual funds and bond mutual funds.

When more than 5 percent of your gross salary or net income is invested in these accounts, you would be considered in a good position. One to 5 percent would indicate a need for increased contributions. No contribution to, or having to make withdrawals from these funds may result in insufficient retirement income, particularly if one has little invested in Social Security contributions.

ROADSIDE CHAT #4: It is great to save and invest, but I don't make that much! What should I do?
The savings rate is approximately the same whether you make $20,000 or $200,000. If you pay yourself first and do not see the money, you are less likely to spend it. Loose money has a tendency to burn holes in pockets. I have found by paying yourself first, people will adjust their budgets and spending habits and never really miss the money.

Insurances

Insurance represents having a risk management tool. Some people elect to have self-insurance with no formal insurance plan. Others are more risk averse and seek a comprehensive insurance plan. Age, family needs, health, goals, and objectives will influence individual insurance levels needed. A good rule of thumb is to have enough insurance coverage to protect against catastrophic events (serious medical emergencies, death of key personnel, liability lawsuits). A household should try to never be caught without adequate health insurance and liability insurance (at least $2 million of liability coverage).

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If you have comprehensive medical and health insurance, life, disability, liability, and renters or homeowners policies (including fire and water damage), and long-term health care you would be in a strong position to handle most risk. You need to revisit your insurance plan every five years or after any major life events (births, deaths, marriages, divorces, etc.).

Lack of some insurance components may mean that you should shore up a weakness. Self-insurance in some of these areas could make you vulnerable to unexpected disasters or loss of earnings, wealth, or equity. Remember, if you want to self-insure against minor losses, you should have enough liquid assets in your emergency savings to cover the losses. A self-insured individual or business is one that accepts total financial responsibility for adverse or catastrophic events. In this case, the individual's or business' assets or equity will be utilized to cover the cost of any losses pertaining to these negative situations. Some individuals are part of groups that come to the aid of others in the sect to assist by volunteering time and money to overcome adversity.

Estate Plans

One component of personal financial plans that is often placed on the back burner is formal estate planning. At an absolute minimum, you and your spouse should have durable powers of attorney and advance medical directives – everyone over the age of 18 should have these documents! If you also have a written will (a minimum requirement for young couples) or comprehensive estate plan (if a family business), that is updated every five years, you are in a strong position or the green light zone. A partial plan or lack of a will places you in the yellow or red light zone for your checkup. This means you are placing your family and heirs in more financial risk. Another side-effect of incomplete estate planning is that it can destroy relationships among your survivors. Good communication about your estate plans is critical for the long-run success of your family operation. Personal financial plans need to be written with goals, objectives (short and long run), evaluations, and measurements. Written plans are more likely to be achieved.

A personal financial plan has many facets. Credit, investment, savings, insurance and protection of assets through an estate plan are the cornerstones. The real test is to examine your strengths and areas for improvement in each area. Only by going through this process can you really identify what areas you need to target to insure the financial health and well being of you and your family.

Rules for the Retirement Road

Thomas W. Haarmann, J.D. of Money Concepts at Carolina Farm Credit is a financial specialist in wealth management. Tom and I have team-taught young and beginning farmer and rancher institutes for several years. The following are some of his thoughts and tips for retirement investing:

Rule 1: Pay yourself first.

Many investment professionals start their pre-retirement locker room talk with the same three words: "Pay yourself first." This includes contributing the maximum amount

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possible to your 401(k) plans and investing additional amounts in IRAs through automatic payroll deductions. Automatic investment plans are an easy way to stick with a retirement investing program because the money is invested before it is spent. While automatic investing does not guarantee a profit or protect against a loss in declining markets, it does make retirement investing a priority. With any automatic investing program, you should, of course, consider your financial ability to continue to invest through periods of low business profits and disruption in non-farm income streams.

Rule 2: Don't let today's bills sink tomorrow's needs.
Supporting yourself and your family is not easy. Chances are, especially if you have children, your household expenses will grow over time. That's why it's important, especially through times of difficulty and new expenses, to keep contributing towards your retirement.

Rule 3: Put time on your side.
This rule sounds like a Rolling Stones song! When you give your money more time to accumulate, the earnings on your investments – and the annual compounding of those earnings – can make a big difference in your final return. Consider a hypothetical investor who saved $2,000 per year for ten years and then did not add to her nest egg for the next 10 years. She has $48,341 after 20 years, assuming she earned 6% annually in a tax-deferred account. Another hypothetical investor waited 10 years, then tried to make up for lost time by investing $3,000 annually for the next ten years. Even though he invested more -- $30,000 versus the early bird's $20,000 – he still ends up with a smaller nest egg. Assuming he also earns 6% per year, his final account value is only $45,313.

ROADSIDE CHAT #5: Is it a good idea to pay off my mortgage and invest for the kids' education, then invest for my retirement?
This is a big mistake. Analogous to the situation in which the flight attendant says, "If the overhead oxygen mask comes out of the ceiling of the airplane, put it over yourself first then children second." It's the same way in investing. Invest for your future, then the children, but still invest while paying down the mortgage to allow money to compound. Here's another way to think about this situation: you can usually borrow money for your child's college education, but you probably can't borrow money for your retirement!

Rule 4: Don't count on Social Security.
While politicians consistently tell us that Social Security benefits aren't going to be reduced, it is still very likely, especially if you are under age 50, that the program will be very different from its current form when you retire. By 2030, there will be twice as many elderly Americans as today, growing from 35 million to 70 million. While the dollars and cents result of this growth is hard to determine, it is clear that personal investing for your retirement is a prudent course of action. I advise young folks to expect to get no retirement benefits from Social Security and to try to finance their retirement on their own. Then, if they do receive Social Security benefits, that's icing on the cake!

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Aside from retirement benefits, Social Security also provides disability insurance coverage for the participant and it provides survivor benefits for a decedent's spouse and children (generally under the age of 18). You can check your estimated Social Security benefits online at www.ssa.gov.

Rule 5: Resist borrowing from your 401(k).
Loans are a popular feature of 401(k) plans. People like being able to get access to their money. But many investment professionals recommend clients consider borrowing from other sources, such as the equity in their home, before taking a 401(k) loan. Here are some reasons why:

Fixed Return – When you pay yourself interest when you pay back a 401(k) loan, your interest rate is the amount you earn on that money. This may be a modest return compared to what your money could earn if you left it invested in the financial markets.

Payback Challenge – Repaying a 401(k) loan when trying to maintain contributions may be difficult. There is a real chance that your retirement plans may suffer when you try to repay and continue to invest simultaneously. Further, loans from 401(k) accounts must be repaid within 5 years (unless the loan is for housing). Failing to repay the loan within the 5-year period will result in tax penalties.

Tax Penalties – Switching jobs before a 401(k) loan is repaid can bring unwanted tax consequences. You may be able to pay off or transfer your loan to your new employer's plan, but if neither option is available to you, your loan balance will be considered a distribution from your own plan. As a result, you may owe ordinary income taxes and a premature distribution penalty tax of 10% unless you meet one of the age or systematic payout method exemptions provided in the Internal Revenue Code.

Double taxation – The money you use to pay interest on your loan will be taxed twice. It will be taxed first when you are repaying the loan because, even though you can contribute to a 401(k) with "pretax" dollars, you cannot do the same with loan payments. It will be taxed a second time, as other 401(k) earnings are, when you make withdrawals from your account in retirement.

Rule 6: Don't "cash out" retirement plans when switching jobs.
When you leave a job, the vested benefits in your retirement plans are an enticing source of money. It may be difficult to resist the urge to take that money as cash, particularly if retirement is many years away. But generally you will have to pay federal income taxes, state income taxes, and a 10% penalty if you're under age 55. This can cut into your investments significantly. For example, assuming a state income tax rate of 7.5%, someone in the 25% federal tax bracket would lose 42.5% of the amount they took from their retirement plan. (25% federal tax + 7.5% state tax + 10% penalty = 42.5%)

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When changing jobs, generally you have three options for leaving your retirement money invested. You can keep the money in your old employer's plan, roll it over into an IRA, or transfer the money to your new employer's plan if that plan accepts rollovers. If you transfer these funds to a rollover IRA or your new employer's plan, be sure to do it through electronic transfer (trustee-to-trustee). This will avoid all tax implications or penalties. If you take an "indirect transfer" where your former employer writes a check to you for the retirement funds, the employer must withhold 20% of the amount of the withdrawal, AND you must reinvest the entire amount (including the 20% that was withheld) within 60 days or else it will be treated as an early withdrawal - you may have to pay incomes taxes and the 10% penalty.

Rule 7: Don't try to time the stock market.
Some investors, even those for whom retirement is still many years away, frequently shift their money in and out of the stock market. They'll get out when they fear a crash and get back in when they expect a boom. The problem with trying to time the market is that no one can consistently predict short term events that push the market up or down. It's better to have an investment plan adjusted for your goals, time frame, and risk tolerance that diversifies your investments, allocates them among different asset classes, and rebalances your portfolio periodically. One of the easiest and most powerful investing strategies is called "dollar cost averaging" – this is just a fancy way of saying that you should invest the same dollar amount every period (monthly, quarterly, etc.).

Rule 8: Allocate, diversify and rebalance.
You have certain long-term financial goals in mind. You also have a certain tolerance for risk when it comes to investing your money. Asset allocation can help you find and maintain your balancing point so you can pursue your goals at a risk level you find comfortable.

As part of a disciplined diversification investment strategy, asset allocation enables you to seamlessly follow this proven three-step process.

Step 1: Allocate your assets across the major asset classes – stocks, bonds, and cash – to help you pursue the optimal returns for the risk level you're willing to undertake.

Step 2: Diversify within each class to take advantage of different investment styles – such as growth and value stocks – and various market sectors – such as government and corporate bonds.

Step 3: Rebalance regularly. Market activity can shift the percentages of your portfolio that you have dedicated to each asset class. Rebalancing will help you maintain your desired allocation. For example, if your portfolio allocation for stock performed exceedingly well over a period compared to other investment types, your stock proportion may become much larger than you desire. Rebalancing your portfolio and moving some of your investment out of stocks and into another asset class will ensure you maintain a reasonable risk level.

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Insurance for You, Your Family, and Your Business

Just as work/life balance is critical to your well-being, it's also important to balance insurance coverage in a business with insurance coverage at home.

Choosing the right combination of insurance products will ensure that your business will have the capacity to carry on and your family will be protected should anything happen to you. Several insurance products will be discussed.

Life Insurance – Life insurance pays a death benefit to your beneficiaries (i.e. your spouse, children, or loved ones you have named to receive the benefit). This death benefit may be in the form of a lump sum or a type of annuity.

If your family depends on your income, life insurance provides the reassurance that, if anything happened to you, your loved ones would be assisted with paying for the home and the lifestyle to which they have grown accustomed.

You, Inc. #4: Conduct your life insurance analysis from a personal standpoint using the worksheet provided. Take a moment to complete the simple worksheet below. It's designed to help you begin evaluating your current life insurance needs.

CASH NEEDS TO CONSIDER	
Final Expenses (A typical funeral costs $10,000, plus taxes)	$
Mortgage Balance	$
Loans and Credit Card Balances	$
Education fund (assume $20,000 per year, per child)	$
Other (Emergency Fund, considering monthly net income or salary)	$
ONGOING INCOME NEEDS	
Assume 70% of your annual income multiplied by the number of years until your children leave home or until you retire (For example: $50,000 X 70% X 10 = $350,000	$
TOTAL NEEDS (Cash needs to consider + Ongoing income needs)	$ (A)
INVESTMENTS AND INSURANCE	
Current (or Existing) personal life insurance benefits	$
Creditor life insurance (which covers the balance of insured mortgages and loans)	$
Group life insurance plan (under an employer)	$
Vested qualified retirement plan balances, 401(k) & IRA balances	$
Other investments like cash, stocks, equity in business	$
TOTAL INSURANCE AND INVESTMENTS	$ (B)
COVERAGE AMOUNT TO CONSIDER (A) - (B) =	$

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Business Insurance – If your business revenue drops due to total disability resulting from an illness or accident of the business owner, your company will continue to have financial obligations to meet while the owner is recovering.

Business insurance can make the difference between the office being open or closed for business. This form of protection provides expense reimbursement covering fixed monthly business expenses required to keep the business viable until the return of the owner, after a period of disability.

You Inc. #5: How much insurance does your business need? Conduct your business insurance analysis using the worksheet provided. It is designed to provide you with an estimate of how much business insurance coverage you should consider.

ONE-TIME COSTS **(The amount you need to cover your business debts, in the event of your death)**		
Business loan balance (if full repayment is needed)	$	
Commercial mortgage or lease (if full repayment is needed)	$	
Buyout Obligations	$	
Accounts Payable	$	
TOTAL	$	(A)
ONGOING COSTS **(The amount you need to meet monthly costs if you were temporarily unable to work)**		
Business loan balance (if scheduled payments are needed)	$	
Commercial mortgage or lease (if scheduled payments are needed)		
Accounts Payable		
Other Costs		
TOTAL	$	(B)
EXISTING BUSINESS INSURANCE COVERAGE **(including business overhead, key person, buy/sell agreement, critical illness and creditor insurance)**		
TOTAL	$	(C)
COVERAGE AMOUNT TO CONSIDER (A) + (B) - (C) =	$	

Buy-Sell Protection – The death of a shareholder of a closely-held corporation does not terminate the legal structure of the business. Upon death, disability or critical illness of a working shareholder, the business operations of the corporation may be dramatically affected, since closely-held corporations only have a few shareholders, and they are often family members. Buy/sell agreements address how shareholders will deal with these risks to protect the business and the impacted shareholder(s).

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There are several insurance products that can fund a buy-sell agreement to ensure that any surviving shareholder(s) in a business can “buy out” a deceased or disabled shareholder and continue operating the business. Life insurance, disability insurance and critical illness insurance policies can be designed to fund the buy-sell agreement.

Commercial Property Insurance – Fire, theft and other types of losses can shut your business down overnight. Property insurance for your premises, stock and equipment can provide the protection you need to get back up and running. If you work from home, make sure your personal property insurance covers your business assets and activities.

Commercial Auto Insurance – When a vehicle is being used regularly by employees, and/or for making deliveries, you need to have a commercial auto policy. The right coverage insures protection from liability associated with a motor vehicle accident, as well as covering vehicle repairs or replacement.

Liability Insurance – Your business could suffer financially if members of your company are found liable for a loss suffered by another person or company. This could be due to situations such as negligence of an employee at your company, a product or service falling short of expectations, or a loss causing injury or damage to a third party. Even if you are not at fault, the legal expenses associated with your defense could be extremely damaging. Fortunately, there are a number of different types of liability insurance available to protect you and your company from the financial risks associated with these and other types of claims. Minimum recommended liability coverage for any business is $2 million.

Trade Credit Insurance – This specialized form of insurance protects your business from the consequences of unpaid accounts receivable due to debtor insolvency, protracted default or non-payment. Benefits are as follows:

- Mitigated risk: Covers losses due to non-payment resulting from commercial or political risks.
- Access to capital: can be used as security against which a bank may extend working capital.
- Increased Sales: Maintain existing client base and attract new customers with attractive payment terms and credit options.

This type of coverage is often recommended if your business meets any or all of these criteria:

- You have large, concentrated receivables from a smaller number of buyers.
- You plan to expand into unfamiliar markets.
- You produce highly customized products with no or limited alternative buyers.

Key Person Life Insurance – The death or disability of a key person, such as an owner of the business or someone responsible in whole or in part for the management of the business, can cause a severe and adverse financial impact on a business. Key person insurance provides funds that can help you operate the business while a suitable replacement for the key individual is recruited and trained – someone with the required

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knowledge, experience, judgment, reputation, and relationships. Or, it can provide funds that can be used to purchase the decedent's share of the business from his/her beneficiaries. Life insurance, disability insurance, and critical illness insurance can be used for key person insurance.

<u>Business Loan Insurance</u> – is creditor insurance that may pay off the insured portion of your business loan(s) if a key member of your management team or owner passes away, or it can cover the insured loan payments if an insured owner becomes disabled. It helps:

- Protect your business by covering your payments when an owner gets sick or injured.
- Your business continue to provide for the people you care about.
- Minimize potential cash flow problems
- Preserve your personal insurance for what it's intended – income replacement for your family.

<u>Disability Insurance</u> – If you become injured, you may not be able to earn an income while recovering. In the event of a permanent disability, you may even have to stop working altogether. Disability insurance can replace a percentage of your income, generally ranging from 50% up to 75%. This income can help you and your family manage day -to-day living expenses and other financial obligations.

<u>Long Term Care Insurance</u> – Studies show that more of us require long-term health care as we get older – and it can be expensive. Long term health can help. It provides cash benefits if you require care in your home or in private or government facilities. This helps protect your assets, savings, and lifestyle, and allows you to preserve the independence you have earned over a lifetime.

<u>Questions to Ask about Insurance</u>

Finally, here are some questions to ask yourself about your current business insurance needs.

- Has your business changed significantly?
    - Have you hired more employees?
    - Have you changed or added locations?
    - Have you added new partners or key personnel?
    - Have your financial obligations changed?
- When was the last time you reviewed your business insurance needs?
- Are you a new business owner?
    - New financial obligations can change your insurance needs.
    - Starting a new business can create different insurance needs.

Depending on your situation, you may need more (or less) coverage than before. Here are some questions to ask yourself when selecting an insurance provider.

- Is it a trusted company with a strong reputation?
- How financially sound is the company?

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- What level of service does it provide in the event of an emergency or should you need to make a claim?
- Does it offer a range of insurance products for added savings/discounts?
- Does it provide insurance solutions tailored to meet your specific needs?
- Does your current broker have the expertise to discuss your business and personal insurance needs?

Business and Lifestyle Balance

The balance between business and lifestyle is a collaborative effort founded on the basics of sound record keeping, budgeting, and risk management in the business and household. Being disciplined to save and invest for the future by following the time tested strategies and rules outlined can lead to a more enriched lifestyle. While the individual elements of a comprehensive financial plan have been discussed, you are encouraged to seek knowledgeable and competent counsel as you put all the pieces of the financial plan together into a “roadmap” to follow and monitor for success.

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Appendix I: Sample Budget Categories

- Pay Yourself First
  - Emergency Fund (3 mo+ of expenses)
  - Other savings (car, computer, vacation, etc.)
  - IRA or Roth IRA account
  - 401(k) account
- ATM fees
  - Unexplained withdrawals
  - ATM user fees
- Body Upkeep
  - Health club/gym membership
  - Facials/Nails/Massages
  - Haircuts and/or color
  - Cosmetics
  - Teeth whitening
  - Other
- Charitable Contributions
  - Church tithing
  - Donations
  - Other
- Clothing
  - Planned shopping for work
  - "Impulse" shopping
  - Shoes
  - Other
- Coffee, etc.
  - Gourmet coffee, lattes, etc.
  - Cigarettes, cigars, other tobacco
- Communications
  - Telephone
  - Cell phones
  - PDA device/smart phone
  - Other
- Computer expenses
  - High-speed internet access
  - Software programs and games
  - Add-ons like CD burners, cords, cameras, etc.
  - Internet service fees (beyond access fees)
  - Digital camera printing fees
  - Buying a new computer
  - Other
- Credit Cards
  - Monthly minimums/Pay down balances
  - Late fees
- Drinks
  - Alcohol for your house
  - Going to bars
- Equipment for Hobbies
  - Golf clubs/balls/clothes
  - Workout clothes
  - Running shoes, hiking boots, etc.
  - Hunting/fishing equipment
  - Bats, balls, gloves, etc.
  - Buying a bicycle
  - Other
- Financial Obligations
  - Property taxes
  - Home/apartment insurance
  - Auto insurance
  - Alimony/child support
  - Life/disability insurance
  - Other
- Food
  - Eating at restaurants
  - Lunch at work
  - Sodas/snacks at work
  - Stops at convenience stores
  - Fast food
  - Groceries
  - Other
- Gifts
  - Birthdays
  - Anniversaries
  - Baby showers
  - Others
- Going out
  - Going to movies (food, parking, etc.)
  - Going to clubs, concerts, sporting events
  - Going to/having parties
  - Other entertainment
- Home Maintenance
  - Utilities (gas/electric)
  - Painting, repair, maintenance
  - Kitchen gadgets
  - Decorating, furnishings, rugs, etc.
  - Other
- Job Interview Trips
  - Hotel and Transportation (if you pay)
  - Clothes
  - Food, etc. (if you pay)
- Legal/Professional fees
  - Attorney, accountant, financial planner
- Loans, Student
  - Monthly minimums/Pay down balances
  - Late fees
- Loans, Other
  - Monthly minimums/Pay down balances
  - Late fees
- Medical Expenses
  - Health Insurance
  - Doctor/Dentist co-pays
  - Uncovered expenses/deductibles
  - Prescription drug costs/co-pays
  - Over-the-counter medicine
  - Other
- Music/Movies/Games
  - Downloading
  - Renting/buying
  - Late fees for rentals
  - Cable on-demand movies
  - Satellite radio fees
  - Other
- Pets
  - Vet bills
  - Boarding when you're traveling
  - Groomer fees
  - Toys and collars
  - Dog walker
  - Regular medicines (flea/tick)
  - Pet food
  - Cleaning furniture/carpets annually
  - Travel expenses (flights, etc.)
  - Pet insurance premium
  - Other
- Reading
  - Books, magazine subscriptions
  - Other
- Rent/mortgage
  - Monthly payment
  - Condo/neighborhood fees
- Television
  - Cable or satellite TV fees
  - TiVo boxes and monthly fees
  - Buying a new TV
  - Other
- Transportation
  - Car payments
  - Car maintenance (oil change, tires)
  - Gas
  - Car washes
  - Parking
  - Public transportation
- Vacations
  - Hotels
  - Flights/rail/car costs
  - New clothes
  - Food, etc.
  - Tickets to shows, sporting events
  - Pet/House sitting
  - Other
- Weddings (attending)
  - Airfare/transportation costs
  - Hotel
  - Clothes
  - Gifts
  - Food, etc.
  - Other
- Other Untraceable Expenses