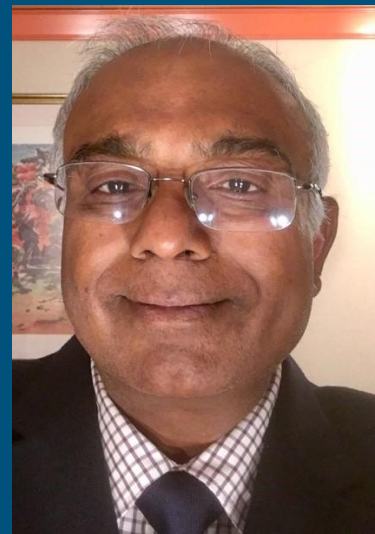


# Foundations of a Solid Financial Plan

October 23, 2021

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# Disclaimer

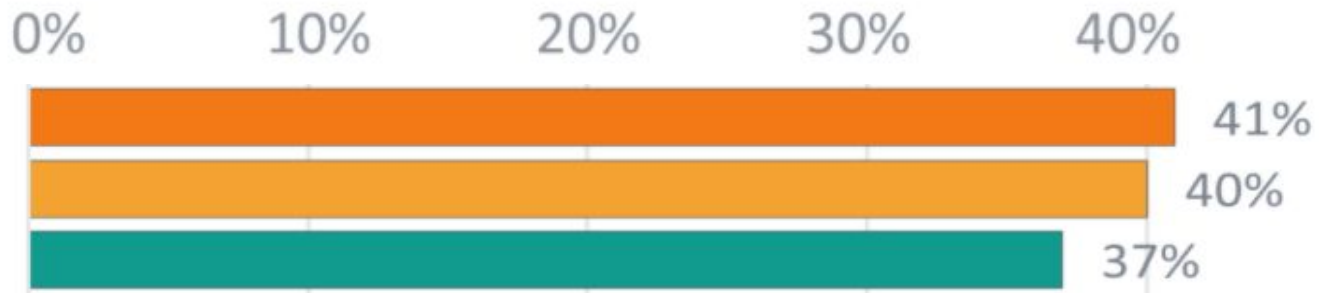
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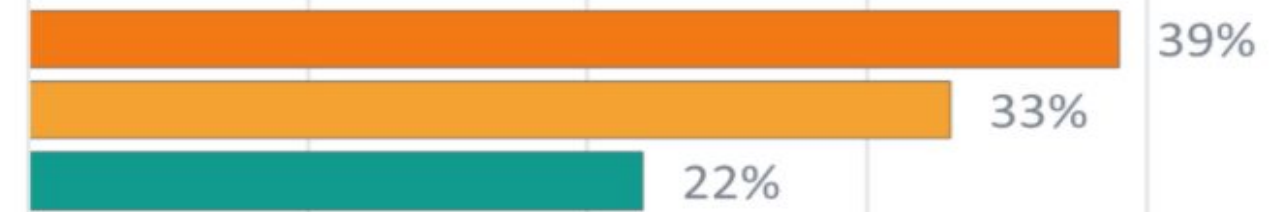
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first consult with your tax, legal or investment advisor.**

## Top Stressors Regarding Personal Finance

Having enough in emergency savings



Job security\*\*



Having enough saved for retirement



Paying rent or mortgage



# What will you learn today?



**Foundation for a secure financial future**

# FINANCIAL HYGIENE

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# Tracking cash flow

Annual Salary: 120,000 per year

(per month)

Gross Income	10,000
Pre-Tax Deductions (Medical etc.)	500
<b>Retirement Contribution</b>	<b>1,000</b>
Taxes (FICA, Income Taxes etc.)	2,500
<b>Take Home Pay</b>	<b>6,000</b>

<b>Retirement Contribution</b>	<b>1,000</b>
Employer Match (3,000/yr)	250
Retirement Savings	1,250

Category	Amount	Totals
Rent / Mortgage	2,500	
Utilities	300	
Groceries	600	
Car & Gas	400	
Auto Insurance	100	
Phone	100	
Loan Payment	500	
<b>Essential Expenses</b>		<b>4,500</b>
Misc Shopping etc.	600	
Eating Out	400	
Entertainment	100	
Other Expenses	200	
<b>Discretionary</b>		<b>1,300</b>
<b>Total Expenses</b>		<b>5,800</b>

<b>After-tax Savings</b>	<b>200 (2%)</b>
<b>Ret Savings</b>	<b>1,000</b>
Total Savings	1,200
% Savings of Gross Income	12%

“nearly half of U.S. adults (47%) admit to living paycheck to paycheck”

NEFE.org Harris Poll - July 7, 2021

**SFGATE**

**How making \$300,000 in San Francisco can still mean you're living paycheck-to-paycheck**

Source: <https://www.sfgate.com/bayarea/article/middle-class-budget-San-Francisco-300-000-13741570.php>

# Manage Your Debts



**Check your credit score and improve it**

**Payoff high interest debts**



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CASH

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# Emergency Fund

**Why?**

**Job Loss**

**Unexpected Repairs**

**Medical Emergencies**

**Unplanned Travel**

# Emergency Fund

How much?

3-6

months of essential expenses

# How many months to save 3 months of Emergency Fund ?

\$4,500 essential expenses per month x 3 months = \$13,500  
@ \$200 per month of savings

**67.5** months!

Adjust your discretionary  
expenses and save more to  
build 3-6 months of  
**cash reserve**

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# Protect against uncertainties

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## Loss of Property

**Auto Insurance**

**Homeowners' / Renters' Insurance**

**Umbrella Insurance**

Protect against uncertainties

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## **Health & Life**

**Medical Insurance**

**Life Insurance**

**Disability Insurance**



# Life Insurance Tips

Who needs Life Insurance?

How much Life Insurance?

What type of Life Insurance?

# Who needs Life Insurance?

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## Don't need

- Children
- Single no dependents
- Elderly
- Disabled

## Absolutely need

- Adults with dependents
- Spouses with children
- Single adult with debts

# How much Life Insurance?

- 
- Thumb Rule - 10x Income
  - Bottoms-Up
    - Debts
    - Income
    - Mortgage
    - Education
  - Cash-flow based
  - Reasonable Amount
  - Limited by Income
  - Dependent on Health Factors

# What type of Life Insurance?

**Term** - simple and flat rate for 10/15/20/25 years

(also called Level-Term)

Be cautious about buying Permanent Life Insurance:

- Whole Life (small cash value)
- Universal Life (flexible premium)
- Indexed Universal Life (portion of return tied to index)

# Is Group Life Insurance from the employer adequate?

- Typically 1-2x salary for free
- Option to purchase additional coverage / for spouse too
- Tied to the employer
- No health check (up to a limit)
- Recommend purchasing privately
  - lower level-premium at younger age
  - no risk of loss of coverage
  - Ladder with various time periods

# Disability Insurance (Income Protection)

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## Short-Term Disability

- waiting period of zero to 14 days
- maximum of two years
- typically covers higher % of income
- covers the waiting period before LTD
- **Alternative: Emergency Fund (6 months)**

## Long-Term Disability

- waiting period of more than 90 days
- benefit goes beyond STD but limited by years or age
- Disability Income varies
  - Reduced by SSDI benefits
  - Definition of disability
- **Depends on Own/Any occupation**

**EMPLOYER-PROVIDED PLANS OFFER CHEAPER PREMIUMS BUT MAY NOT BE SUFFICIENT FOR SPECIALIZED SKILL-LEVELS.**

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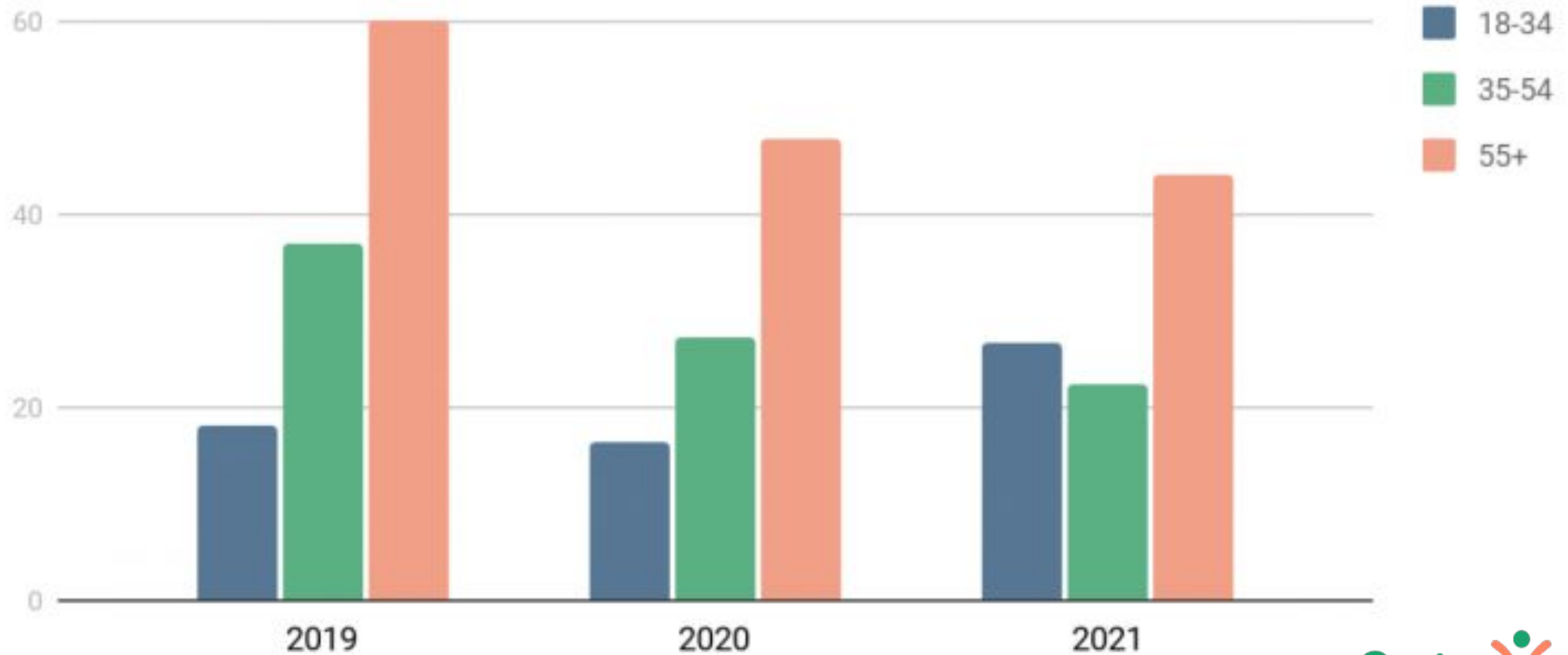
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# Percentage of Americans Who Have Estate Planning Documents by Age Group





# Why do you need an Estate Plan?

1. Avoid lengthy/costly Probate/Court Process
2. Decide Custody for Children / Minors
3. Trustee for Assets and Real Properties
4. Healthcare-related Decisions

# Estate Plan Documents

<b>Document</b>	<b>Purpose</b>
Revocable Living Trust	For all assets and properties
Guardianship	For children and minors
Durable POA	When mentally incapacitated
Healthcare Directive / Living Will*	Health care agent to make medical decisions
Will*	Assets not included in the Trust

\*Free / Do-It-Yourself

# Not in an Estate Plan but Free (D-I-Y)!

- ❑ Joint Title on all Non-Retirement Accounts
- ❑ Beneficiary Designations on
  - ❑ Retirement Accounts
  - ❑ Insurance & Annuity Contracts
- ❑ Register in [SSA.gov/myaccount](https://ssa.gov/myaccount)
  - ❑ Save your benefit statement
- ❑ Save Year-End Statements
- ❑ Will (your wishes)
- ❑ Healthcare Directive

SAVINGS

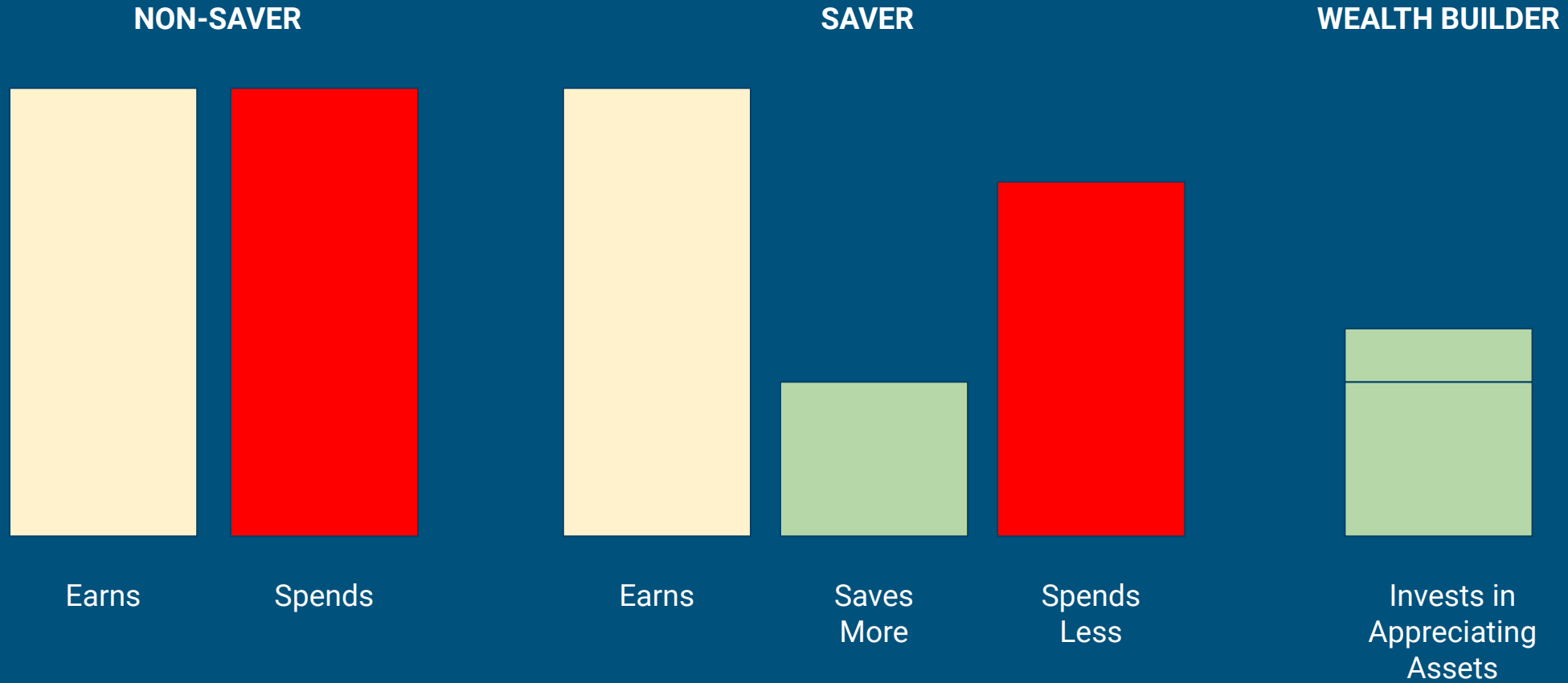
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# #1 Secret to building wealth



# Who saved the most?

Assume 8% compounded growth rate

## Sally: Early Saver

- \$3,000 every year, starting at age 20
- **Stops Saving after 10 years**, no further contributions
- Total Contribution = \$30,000
- Account at 30 years age = \$47,000

## Bob: Late Saver

- Waits until age 30 before saving \$3,000 a year
- Keeps saving for the next 30 years
- Total Contribution = \$90,000

Guess who will have more wealth accumulated at age 60?

**15%**

**Savings Goal**

**Pay yourself first!**

SAVINGS

TAX-ADVANTAGED  
SAVINGS

EMERGENCY  
CASH

RISK  
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# Increase Tax-advantaged Savings

- Max Employer Retirement Contribution
  - At least max out Employer Match
- Maximize ESPP purchase
- Elect Health Savings Account (HSA) if suitable
- College Savings 529-Plan (start early)
- Roth IRA\* or Traditional IRA Contributions
  - Backdoor Roth conversion



**“All Investments involve some risks.  
Past Performance is no guarantee of  
future results.”**

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**So how to invest?**

# Risk vs. Return & Time Horizon



Source: T. Rowe Price



**Trade frequently**

**React to the market or be impulsive**

**Borrow to Invest (using Margin Account or Debt)**

**Concentration of positions (more than 5% in a single stock)**



**Purchase Funds with Front-end Fees or Paying High Annual Expenses**

**Pay % of Asset Under Management (AUM) fees to an advisor**

# Investment Discipline

- Invest Regularly - Benefit of Dollar Cost Averaging
- “Time in the market” over “Timing the market”
- Invest in low cost, no-load ETFs or Mutual Funds
- Diversify & Simplify - Reduce Business/Sector/Geo Risks
- Change Asset Allocation/Rebalance Periodically

**All Investments involve some risks.  
Past Performance is no guarantee of future results.**

# Foundations for a Solid Financial Plan

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“78% of U.S. adults agree that considering what they already know about personal finance, they could still benefit from financial advice and answers to everyday financial questions from a professional.”\*

**Book your free 45-min consultation**

<https://www.encoverpersonalfinance.com/schedule>

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# Q & A

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# Thank You!

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