INDIANA LAWYER

FOCUS: Financial planning 101

It’s never too early to prepare for the future

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The biggest mistake young professionals can make when it comes to financial planning – whether it’s the decision to hire an advisor, how to handle taxes, or estate planning – is the misconception that one needs to be wealthy or that one’s estate isn’t big enough to worry about it yet.

To help young professionals learn more about planning for retirement, tax issues, and to create a legacy, three Indianapolis professionals host an annual seminar session in the fall. The seminar is in its fifth year.

Jennifer Ruby, an Indianapolis solo attorney, along with Tina Moe, a certified public accountant and owner of A.C.T. Services Inc., and Michael J. McGlothlin, ChFC, CLU, CFP, and owner of Indiana Advisory Group, said they first got involved with the seminars to find new clients.

Ruby

However, they quickly learned that wouldn’t be the case. Instead, they continue to offer the courses as a way to share their knowledge – something that would cost significantly more elsewhere than the $10 they charge per session that includes dinner – and may eventually lead to clients if the professionals do get to a point where they’re willing to pay significantly more to protect their assets.

At the first session Oct. 6, McGlothlin gave participants a presentation and workbook that includes information about six things it’s never too early to think about: Protect what you have; take control of your cash flow; invest wisely; manage your taxes; save for retirement; and leave a legacy.

To protect what you have, he suggested participants research different kinds of insurance policies. These policies will protect what has been saved and will also help someone recover from an unexpected financial crisis resulting from a medical emergency or a lawsuit.

He strongly suggested participants consider medical, disability, life, and long-term care insurance. To determine how much life insurance, he said to determine the total annual living costs of dependents. From that, take away what income the dependents would have on their own, and figure the difference. One should also consider how many years the dependents would rely on the additional income and how much money children would need for education or other costs down the road.

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> Michael J. McGlothlin, owner of Indiana Advisory Group

Regarding cash flow, he compared individuals to businesses.

“Who would invest in a business that doesn’t have accountability for 20 percent of its cash flow, has regular unexpected expenses, and routinely delays filing statements and tax returns?” McGlothlin asked.

He said these are statistically common issues among individuals, but that they can be addressed by filing tax returns on time and creating a budget that includes all income and expenses.

He also encouraged couples to craft a budget together but to keep in mind that one’s spouse or partner might have different ideas when it comes to how much to spend, save, or invest, and this exercise and others will help the couple come to a compromise by seeing their monthly or annual expenses in real dollars.

The next step is to invest wisely. If this involves a financial planner, McGlothlin suggested individuals interview a number of advisors before choosing one because it is important to have a good chemistry and understanding with someone who will have so much say in one’s financial situation.

This is also where individuals need to consider their risk assessment, something that will likely change during the individual’s life.

For instance, a young person with many more working years will be more willing to have a riskier strategy than someone who is closer to retirement age.

McGlothlin, Ruby, and Moe all agreed that this is another reason no young professional is too young to begin investing and why they offer these classes.

“Time is on your side,” McGlothlin said.

He added that individuals should consider diversifying their investments, invest in mutual funds based on an individual's ability to do so, and to maximize programs through work that employers will match such as 401Ks.

Another step is to take a closer look at tax returns. If there is a large amount going to taxes, he suggested individuals consider researching and choosing tax-exempt investments such as municipal bonds and Roth IRAs, or tax-deferred investments such as traditional IRA, employer-sponsored retirement plans, or annuities.

He explained how to save for retirement. Similar to determining a life insurance plan, individuals must consider their current income, how much of that income they are able to live off of, and how much income they'll have from Social Security, savings, or other sources.

Again, he added, if someone starts saving for retirement at a young age, they will be in better shape down the road. He gave examples of a hypothetical 45-year-old who wants to retire in 20 years, which has a different formula than a 25-year-old looking to retire in 40 years.

It's also important to consider one's life expectancy, McGlothlin said, and to consider lifestyle. If a couple wants to travel after they retire, for instance, they'll likely need more money than when they spent more time at home.

Finally, he briefly explained how to leave a legacy through estate planning, to be explained in depth at Ruby's session at 6 p.m. Oct. 20 at the Columbia Club on Monument Circle in Indianapolis. Seats are still available but reservations are required for $10. For more information, visit www.finances101.us.

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