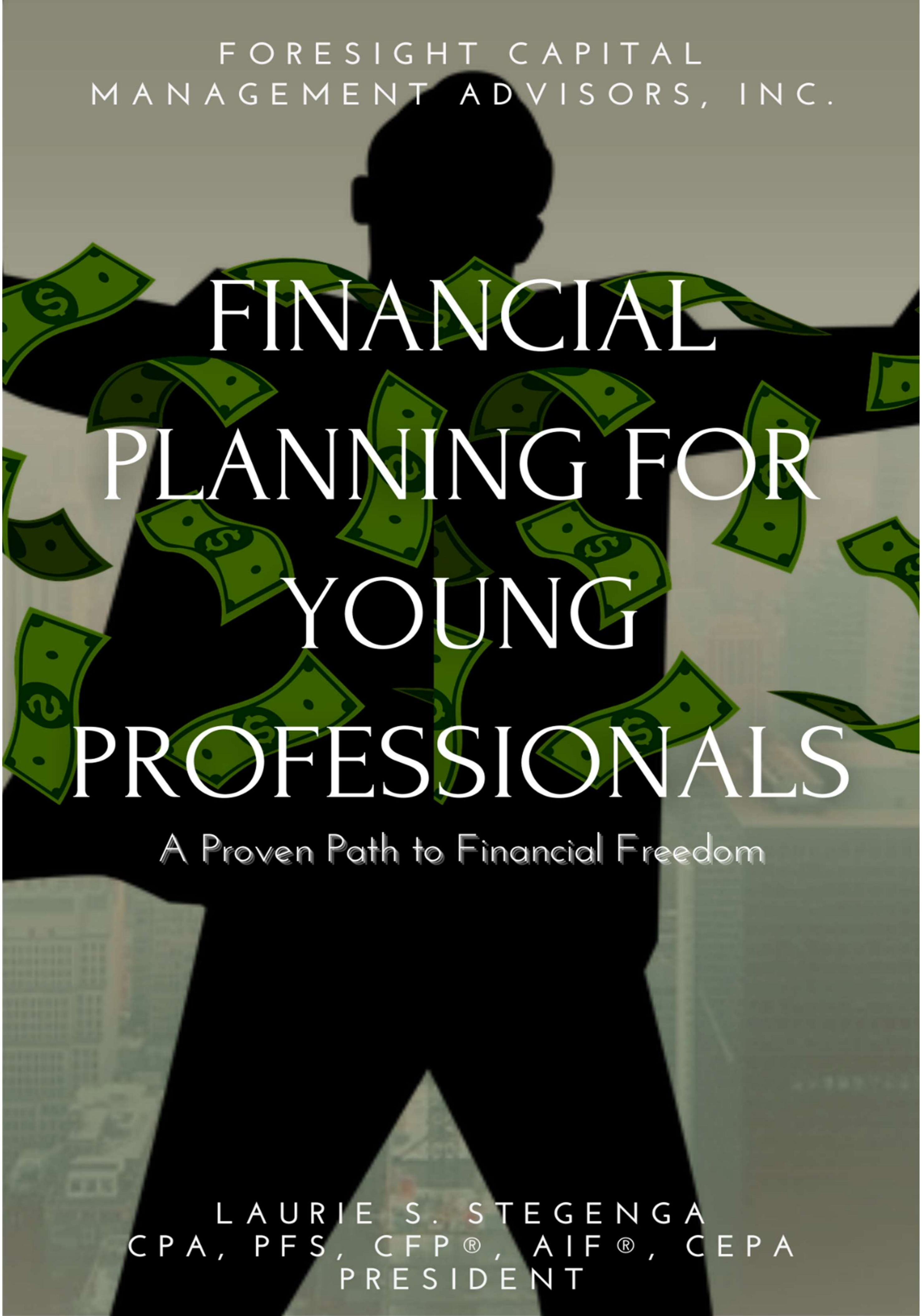

FORESIGHT CAPITAL MANAGEMENT ADVISORS, INC.

FINANCIAL PLANNING FOR YOUNG PROFESSIONALS

A Proven Path to Financial Freedom

LAURIE S. STEGENGA
CPA, PFS, CFP®, AIF®, CEPA
PRESIDENT

“FINANCIAL PLANNING FOR YOUNG PROFESSIONALS”

A PROVEN PATH TO FINANCIAL FREEDOM

First Edition, 2022

Laurie S. Stegenga CPA, CFP®, PFS, AIF®, CEPA

President, Foresight Capital Management Advisors, Inc.

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WARNING AND DISCLAIMER

This book is intended to provide general information regarding saving for retirement. It is not intended as a substitute for the investor's own research, or for the advice of a qualified financial specialist. The author shall have neither liability nor responsibility to any person or entity with respect to any loss or damage caused, or alleged to be caused, directly or indirectly, by the information contained in this book.

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ABOUT THE AUTHOR

Laurie Stegenga is President and founder of Foresight Capital Management Advisors, Inc., (FCMA) a fee-only Registered Investment Advisory firm. Her past financial work experience has spanned 37 years of managing and accounting for billions of dollars in investments. In 1983, Laurie began her career in big eight accounting, auditing large publicly traded corporations and performing audits and taxes for small entrepreneurial businesses. Five years later she joined Midwest Microwave, Inc. a defense manufacturing company as Chief Financial Officer and Human Resource Director.

In 1993, Laurie joined Alexander Hamilton Life Insurance Company as Manager of Investment Valuation and Statutory Reporting for their $7.3 billion portfolio. Several years later Laurie became a Divisional Director of Accounting and an international finance consultant for Thomson Publishing, Inc.

Then she joined Tisch Investment Advisory, Inc., a regional mid-west Registered Investment Advisory firm in 1998, to form and develop their retirement plan division. During her nine years, as Vice President, with the firm she assisted in growing the retirement plan division to a $140 million portfolio, which represented about forty percent of the assets under management for the firm.

Laurie's expertise is in retirement plan services, providing on-site education and one-on-one personal financial planning for the employees, fiduciary consulting, and all aspects of personal wealth planning for the individual and family office. In 2008, she ventured out on her own and established Foresight Capital Management Advisors, Inc. FCMA was featured in the June 2010 issue of *Forbes Magazine - Michigan Financial* and the September 12th 2016 issue of the *Wall Street Journal*. She was listed as a top-ranking RIA in the July 2016, 2017, 2019, 2020, and 2021 issues of *Financial Advisor Magazine* and has been named a Detroit Five Star Wealth Manager in *HOUR Detroit* and *DBusiness* for seven consecutive years, 2016 – 2022.

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INTRODUCTION

What future do you see for yourself? How often do you ask yourself where do I want to be financially in one, two or twenty years? Do you see yourself retiring in your sixties and enjoying financial freedom by doing what you really like? Or are you still working, counting every penny, and living below your means?

We at Foresight Capital Management Advisors, Inc. believe that everyone who has worked hard, sacrificed, and saved to build wealth deserves an abundant retirement. By using best-practice financial modeling, we can provide clarity about what you need to do, both today and in the future, to move toward a confident and financially secure retirement. Planning is where it all begins for your retirement. To illustrate this principle, we will follow the real-life stories of two individuals, Dr. Success and Dr. Ordinary as they have nearly identical resources but made very different choices.

Dr. Success and Dr. Ordinary* have almost identical situations, at least in terms of the information that advisors look at. They have the same number of years of service in the same retirement plan. Both plan to retire at their full retirement age with about 44 years of service. Both are highly qualified; they are making a very good income, probably better than average for a lot of doctors. They started working with Foresight in the same year with total savings of around $300,000.

Dr. Success genuinely committed to building lifetime wealth; he wanted to start off on the right foot. He began with a moderate approach to his lifestyle. He did not chase after a house three times his income or a luxury car that would strain his budget: he could afford a comfortable life only after making some good financial decisions. However, living his comfortable lifestyle allowed him to save more towards his retirement and pay off his student loans in a reasonable amount of time. Right now, he lives in a great house worth four times his income, drives a luxury car, is able to invest comfortably in alternative investments, and frequently travels and dines out.

He also wanted to pay back his student loan debt as quickly as possible, while still saving for his retirement. So, the student loans were gone after 10 years. After the loans were paid off, he was able to invest even more! He started maxing out his 401(k) and heavily invested in Foresight's globally diversified portfolio with an average return of 7% to 8%. Dr. Success was able to accumulate $15 million in his investment accounts over the 44 years of his career. He is essentially debt free and has a mixture of retirement plans, investments, and savings. These allowed him to retire comfortably and maintain his full working wage as his standard of living at 67 years old.

* Names in the story examples have been changed to preserve confidentiality.

Dr. Ordinary is an overconfident individual who thinks he is a better-than-average or an expert investor. He became price-obsessed and started to trade more after he experienced high stock returns. He appears daily by either buying or selling stocks throughout the day with the hopes of cashing in on small changes in the price of high growth stocks. Day trading, however, carries a high risk of loss, so the poor fellow has incurable emotional problems and overestimated investment skills. Instead of making 7% to 8% return in a year by investing in a diversified portfolio, he chooses to take an enormous amount of risk to get those +100% profits instead of the safer 8% profits, and thus sadly ends up generating an average annual return of only 2% over time.

Source: https://www.presentermedia.com/powerpoint-clipart/businessman-hold-stack-money-pid-22737

He also was told to pay down his debt quickly or max out his 401(k), but he just does not see the need. Retirement is so far away! So, he waited a few years to start contributing into his 401(k) and paying off his student loans; he did not see much reason to save for a retirement that is 40 years away. He bought a big house, multiple cars, and was not focused on paying down his student loan debt. His living expenses included cable TV, utilities, premium gas for his luxury autos, eating out, designer clothes, vacations, lavish weddings for his 5 children, etc. He wants to have $250,000 each year in retirement lifestyle. If he retired at 70, he would likely need roughly $250,000 x 25 years or $6,250,000, but he is already far behind.

Dr. Ordinary always vaguely intended to build up his retirement savings. However, time is running out. He has already missed decades of potential investment gains and compound interest. At this point, he has $3 million earmarked for a retirement that is roughly a decade away. Despite his good intentions, Dr. Ordinary will not be able to retire even at age 70 and maintain his current working standard of living.

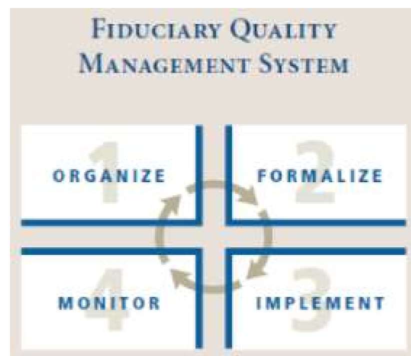
This story illustrates how one person with restraint and careful planning can increase his investments by five times those of someone who fails to plan. In the end, Dr. Success will be far happier in retirement than will Dr. Ordinary. So, what will be your story? What approach will you take?

"DIVERSIFICATION DOES NOT WORK EVERY TIME BUT IT DOES WORK OVER TIME!" - DAVID LEBOVITZ, J.P. MORGAN GLOBAL STRATEGIST

Most investors are overconfident in their abilities, leading them to trade more aggressively, take on more risk and thus lose more money. The hardest hurdle to overcome with day trading is the sheer emotional toll it can take; taxing both physical and mental well-being. The financial markets have rewarded long-term investors. "Diversification does not work every time but it does work over time!"[1] said David Lebovitz, JPMorgan Global Strategist. People expect a positive return on the capital they supply, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation. Paying off debt helps you generate wealth since debt is one part of the net worth equation. When you pay off debt, you save money that would have gone towards paying interest. That money can then be used in other ways. Moreover, the future is very unpredictable, no matter how hard we try to predict it. Financial planning is critical to success as it gives you control of your life and your future. In this booklet Foresight focuses on the principles of holistic financial planning designed to help you generate enough wealth for a happy retirement. You must plan today for a better and brighter tomorrow.

1. HOLISTIC APPROACH

How does Foresight approach the details of holistic financial planning that is needed in these situations for young professionals described above? Foresight knows that newly graduated high-level professionals are put into a dynamic financial position where they have a massive shift in income level. This income shift is an unbelievably important time in these professionals' lives, because how they live and adapt to the income changes will provide a baseline for financial decisions for the rest of their (your) lives. The implementation of a financial plan is crucial as it allows professionals to instantly get acquainted with the long-term goal of retirement savings while also achieving short and mid-term personal goals. Everyone's financial plan is uniquely different, because the best financial plans need to be custom tailored to include each individual's different and specific holistic factors. This is the value added by a financial advisor through examining and analyzing a client's current fiscal and lifestyle scenarios and then guiding them to the goals they have set for themselves.



Source: Broadridge Financial Solutions, Inc.- *Fiduciary Quality Management System*. https://www.fi360.com

A truly holistic financial plan does not stop at the financial analysis of the client. The needs of the client can also expand beyond their financial realm. Foresight's approach examines all parts of a client's life and coaches them to adjust certain aspects to make their dreams attainable. Proper Life Coaching prioritizes balancing out all aspects of life to create a plan to help achieve any personal goals each client wants. This means that clients might have to budget and pay the necessary expenses first before spending their money leisurely, thus making some sacrifices in order to achieve what they set out to achieve.

The Holistic approach to financial planning contains 4 distinct stages. The 4 stages of holistic financial planning using the Fiduciary Quality Management System are to Organize, Formalize, Implement and Monitor.

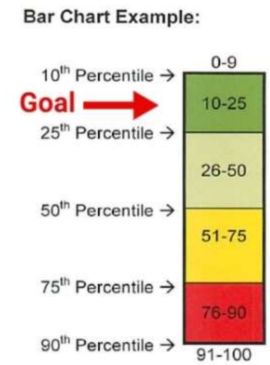
The Organization phase starts with a one-on-one meeting with the client and the advisor. During this phase, topics discussed with the client include their current financial situation, short-term, intermediate-term, and long-term goals. These goals will give both the advisor and the individual something attainable to strive for. At Foresight, this step is where we get to meet the client and start to draft what a potential financial plan would look like. The Organization phase also acts as the data collection phase where client information is gathered such as investment accounts and investment strategies, insurance policies, wages/savings rates, risk tolerance, and other family goal information.

In our example, Dr. Success understood the importance of goal setting and followed the first step of the financial plan. Dr. Success committed to build lifetime wealth by getting out of debt before retirement, building an emergency fund, and saving enough money for a comfortable retirement. While Dr. Ordinary always relied on luck and never set a long-term financial goal. He firmly believed that mostly luck will help him to reach financial independence at an earlier age. As Benjamin Franklin said: “Failing to plan is planning to fail”. Thus, it is crucial to start planning your finances early to secure a better future.

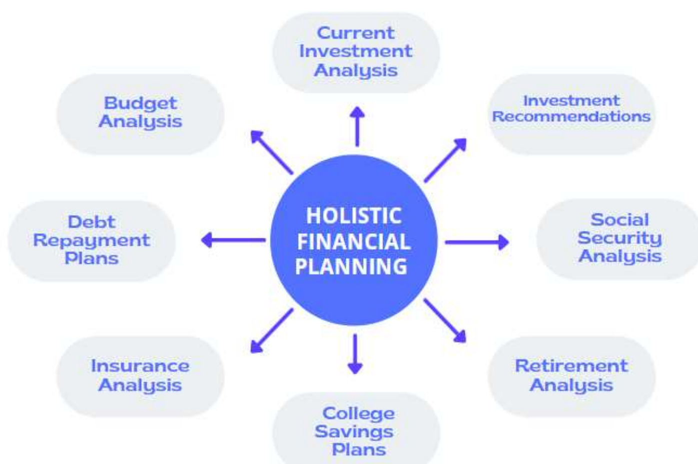
Once all necessary client information is gathered and organized, the next step in the holistic financial planning process is to formalize the custom-tailored financial plan. A custom-tailored financial plan is built to answer the questions and needs of each individual client or family. Topics that can be covered within the holistic financial plan at Foresight include but are not limited to: Current Investment Analysis, Investment Recommendations, Social Security Analysis, Insurance Analysis, College Savings Plans, Debt Repayment Plans, Budget Analysis, Long - Term Care Planning, Monte Carlo Retirement Analysis, Withdrawal Strategy, Estate Documents and a To Do List for the next steps following the formalization of a financial plan.

– Current Investment Analysis –

Within the Current Investment Analysis tab, Foresight works to gather a clear picture of the overall family portfolio. This includes any employer sponsored retirement plans, retirement savings accounts, Roth assets, after-tax investment brokerage savings, annuities, and liquid cash savings. Once the family portfolio is constructed, Foresight begins to analyze the health of the investments within the portfolio. These various investments may include mutual funds, stocks, bonds, real estate, or other investment vehicles. Foresight uses various analytical tools to research and analyze the health and characteristics of these investments.



Source: Broadridge Financial Solutions, Inc.- *Fiduciary Score* TM. https://www.fi360.com



Created using https://www.canva.com

One such tool is the Fi360 Fiduciary Toolkit. The Fi360 toolkit is able to score mutual funds on 11 different criteria in relation to its peer group and this results in an overall score of 0-100. The cumulative score reflects how well the mutual fund scores in relationship to its peers on a percentile basis. If a mutual fund has a score of 10, that mutual fund ranks in the top 10% of the mutual funds in its peer group. At Foresight we strive to identify and invest in mutual funds that fall in the top 25% dark green percentile. Per the example below, Mutual Fund A does just that, as it passes every single category and received a cumulative percentile rank of 0, meaning this fund is the best of the best in this category. However, Mutual Fund B did not fare so well as it fails in the 1, 3, and 5-year returns, the 3-year Alpha, the 3-year Sharpe Ratio, and the Style of investment criterion. With those factors, it received a cumulative score of 80. Meaning that 80% of funds in the Large Blend category are heathier and scored better than Mutual Fund B. The tool also keeps track of the rankings of the mutual fund over the last 1, 3, 5, and 10 years. 10 years ago, Mutual Fund B scored much higher with a ranking of 31, but has since fallen out of favor.

Fi360 FIDUCIARY SCORE® BREAKDOWN

The Fi360 Fiduciary Score® is a peer percentile ranking of an investment against a set of quantitative due diligence criteria selected to reflect prudent fiduciary management. The Fi360 Fiduciary Score® Average is a one-, three-, five-, or ten-year rolling average of an investment's Fi360 Fiduciary Score®. All Scores are color coded based on the quartile they fall in (1st - Green; 2nd - Light Green; 3rd - Yellow; 4th - Red).

Score Criterion

IN. Inception Date. Must have at least a 3 year track history
MT. Manager Tenure. Must have at least a 2 year track history. (Most senior manager's tenure)
NA. Net Assets. Must have >= 75 million under management. (Total across all share classes)
CO. Composition. Must have >= 80% allocation to primary asset (Not applied to all peer groups)
SS. Style. Must have current style box match the peer group. (Not applied to all peer groups)
ER. Prospectus Net Exp Ratio. * Must place in the top 75% of its peer group.
A3. Alpha - Broad Market (3 YR). Must place in the top 50% of its peer group.
S3. Sharpe (3 YR). Must place in the top 50% of its peer group.
R1. Return (1 YR). Must place in the top 50% of its peer group.
R3. Return (3 YR). Must place in the top 50% of its peer group.
R5. Return (5 YR). Must place in the top 50% of its peer group.

* For separately managed accounts, r-squared in the top 75% of it's peer group is used as a replacement criterion for Exp Ratio.

Summary Legend

✓	Investment meets the criterion
⊘	Investment does not meet the criterion
-	Investment data is not available
NA	Investment is not screened on the criterion

LARGE BLEND

INVESTMENT NAME	TICKER	SCORE (PEERS)	SCORE CRITERIA											ROLLING AVERAGES (PEERS)			
			IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 YR	3 YR	5 YR	10 YR
Mutual Fund A		0 (1,305)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0 (1,245)	0 (1,123)	0 (1,001)	1 (744)
Mutual Fund B		80 (1,305)	✓	✓	✓	✓	⊘	✓	⊘	⊘	⊘	⊘	⊘	77 (1,245)	36 (1,123)	34 (1,001)	31 (744)

Source: Broadridge Financial Solutions, Inc.- Fi 360 *Fiduciary Score® Breakdown* https://www.fi360.com

– Investment Recommendations –

After Foresight analyzes the current investments as well as available investment options, we then create custom investment portfolios utilizing the research tools to ensure clients are invested into the healthiest positions that provide the highest return at the lowest cost and risk. We quantify these portfolios using a Comparative Performance Summary as seen below.

All Comparative Performance Summaries start with the benchmark of the S&P 500, the 500 largest companies in the United States. We then compare that to the client's current portfolio as well as multiple proposals for the client to improve their investment portfolio. Foresight will walk through each of the created proposals to accurately tailor the proposals to the client's goals, risk tolerance, and cash flow needs. Foresight is able to invest in stocks, prime market bonds, mutual funds, covered call options, annuities, and other complex investment strategies to ensure the client has a fully diversified and efficient portfolio.

Comparative Performance Summary

Performance: *Investment performance is not guaranteed. Past performance may not be a good predictor of future performance. Investment values will fluctuate and may be worth more or less than the original amount invested at any point in time. All data is from Morningstar, Inc. June, 30 2021 and should be used as a hypothetical representation of these comparisons.*

	S & P 500	Current 401(k) 100% VFFVX (Hyper Aggressive 90/10)	Proposal #1: Hyper Aggressive 90/10	Proposal #2: Hyper Aggressive 100/0	Proposal #3: Aggressive 75/25
		$43,000	$43,000	$43,000	$43,000
1 Yr Return	40.79%	36.40%	39.55%	41.42%	35.37%
3 Yr Return	18.67%	14.13%	15.83%	17.30%	14.37%
5 Yr Return	17.65%	13.96%	15.37%	16.70%	13.88%
10 Yr Return	14.38%	10.72%	12.30%	13.55%	11.06%
R2: *The R2 is measured on a scale of 0 to 100, with a measurement of 100 indicating that the portfolio's performance is entirely determined by the benchmark index. A low R2 indicates that there is no significant relationship between the portfolio and the index.*					
	1	0.97	0.98	0.99	0.97
Beta: *Beta describes the relation of a portfolio's returns with that of the market as a whole. An asset with a beta of 0 means that its price is not at all correlated with the market. A + beta means that the asset generally follows the market. A - beta shows that the asset inversely follows the market.*					
	1	0.88	0.94	1.01	0.85
Std. Deviation: *A measure of the volatility, or risk, of a portfolio as compared to the market. The higher the standard deviation, the higher the risk.*					
	18.52%	16.64%	17.60%	18.68%	15.93%
Sharpe Ratio: *A measure of a portfolio's excess return relative to the total variability of the portfolio.*					
	0.92	0.81	0.86	0.89	0.85
Alpha: *A risk-adjusted measure of the active return on an investment. It is the return in excess of the compensation for the risk taken.*					
	0.00%	-2.20%	-1.59%	-1.25%	-1.51%
Estimated Yearly Cash Flow		1.44% or $612	1.42% or $632	1.45% or $623	1.87% or $649

Note: All data for R2, Beta, Std. Deviation, Sharpe Ratio, and Alpha represent 3-year average statistics

Current Vanguard Target Retirement 2055 Fund
Proposal #1: Hyper Aggressive 90/10 weighted portfolio
Proposal #2: Aggressive 100/0 weighted portfolio
Proposal #3: Aggressive 75/25 weighted portfolio

Note. All data is from Morningstar, Inc. June 30, 2021 and used as a hypothetical representation of these comparisons

– Social Security Analysis –

During the Social Security analysis chapter, Foresight provides reporting that properly estimates the Social Security benefits, according to the current laws, for the client in the future and weighs the pros and cons of taking Social Security early, or delaying Social Security as long as possible. Social Security provides a huge benefit for

Current ages: Doctor **51** (10/14/1969), Spouse **51** (7/10/1970)
PIA: Doctor **$2,933**, Spouse **$2,774**
Life expectancy: Doctor **92**, Spouse **96**.

Scenarios

1. Both Claim Early
The goal of this scenario is for each spouse to claim at age 62 or as early as possible afterwards.

Strategy:
Nov 2031: Doctor claims on own record at **age 62** starting at **$2,281**.
Aug 2032: Spouse claims on own record at age **62** starting at **$2,179**.
Dec 2061: Spouse claims survivor benefits at **age 91** starting at **$3,106**.

Lifetime **nominal** benefit : **$2,046,457**

2. Both claim at FRA
The goal of this scenario is for each spouse to claim at full retirement age (FRA) or as early as possible afterwards.

Strategy:
Oct 2036: Doctor claims on own record at **FRA (67)** starting at **$3,405**.
Jul 2037: Spouse claims on own record at **FRA** (67) starting at **$3,253**.
Dec 2061: Spouse claims survivor benefits at **age 91** starting at **$4,411**.

Lifetime **nominal** benefit : **$2,522,027**

3. Spouse Claims Early, Doctor Claims Later
The goal of this hybrid scenario is for the lower-benefit spouse to claim as early as possible and the higher-benefit spouse claim as late as possible.

Strategy:
Aug 2032: Spouse claims on own record at age **62** starting at **$2,179**.
Oct 2039: Doctor claims on own record at **age 70** starting at **$4,350**.
Dec 2061: Spouse claims survivor benefits at **age 91** starting at **$5,469**.

Lifetime **nominal** benefit : **$2,525,995**

4. Maximum Lifetime Nominal Benefit
The goal of this scenario is to search all possible filing strategies and find the one that yields the maximum combined lifetime benefits.

Strategy:
Oct 2039: Doctor claims on own record at **age 70** starting at **$4,350**.
Jul 2040: Spouse claims on own record at age **70** starting at **$4,156**.
Dec 2061: Spouse claims survivor benefits at **age 91** starting at **$5,469**.

Lifetime **nominal** benefit : **$2,824,990**

Source: *Social Security Spousal Planning Analysis*. Horsesmouth, LLC. https://www.savvysocialsecurity.com/

retirees and will count for a substantial portion of their retirement lifestyle. The earlier you retire, the more beneficial taking Social Security may be, but the longer you delay taking Social Security, the higher your cumulative benefits will be. Below is an example of a Social Security output.

– College Savings Plan –

Foresight also runs custom College Savings plans for clients looking to save for large education expenses. Using a national study on the price of higher education costs across the country, Foresight can plan for the estimated education expenses associated with sending kids to college. A key factor in the College Savings Plan is the increased inflation on the costs of higher education. By running a College Savings Plan, Foresights helps clients prepare for these increasing costs through planning and proper investing to build an asset pool that will cover the potential education needs.

Family College Savings

College Planner*

								Assumes 7% Growth Rate on Investments	
							Est. Yearly Savings	$17,250	$7,900
							Montly Savings >>>	$1,438	$658
Year	Public University	Private University	Ivy League University	Public Med/Law	Ivy League Med/Law	Child 1	Child 2	Child 1	Child 2
					Age	12	1		
							Beginning Balance	$ -	$ -
2021	37,011	58,436	85,708	74,019	171,414	-	-	$ 8,625	$ 3,950
2022	38,491	60,774	89,136	76,979	178,271	-	-	$ 26,479	$ 12,127
2023	40,031	63,205	92,701	80,059	185,401	-	-	$ 45,582	$ 20,875
2024	41,632	65,733	96,409	83,261	192,817		-	$ 66,023	$ 30,237
2025	43,297	68,362	100,266	86,591	200,530		-	$ 87,895	$ 40,253
2026	45,029	71,097	104,276	90,055	208,551	-	-	$ 111,297	$ 50,971
2027	46,830	73,940	108,448	93,657	216,893	46,830	-	$ 89,508	$ 62,439
2028	48,703	76,898	112,785	97,403	225,569	48,703	-	$ 64,320	$ 74,710
2029	50,652	79,974	117,297	101,300	234,592	50,652	-	$ 35,421	$ 87,839
2030	52,678	83,173	121,989	105,352	243,976	52,678	-	$ 2,473	$ 101,888
2031	54,785	86,500	126,868	109,566	253,735	-	-		$ 116,920
2032	56,976	89,960	131,943	113,948	263,884	-	-		$ 133,005
2033	59,255	93,558	137,221	118,506	274,439	-	-		$ 150,215
2034	61,625	97,301	142,710	123,246	285,417	-	-		$ 168,630
2035	64,090	101,193	148,418	128,176	296,834	-	-		$ 188,334
2036	66,654	105,240	154,355	133,303	308,707	-	-		$ 209,417
2037	69,320	109,450	160,529	138,636	321,055	-	-		$ 231,977
2038	72,093	113,828	166,950	144,181	333,897	-	72,093		$ 184,022
2039	74,977	118,381	173,628	149,948	347,253	-	74,977		$ 129,827
2040	77,976	123,116	180,573	155,946	361,144	-	77,976		$ 68,839
2041	81,095	128,041	187,796	162,184	375,589	-	81,095		$ 463
2042	84,339	133,163	195,308	168,671	390,613	-	-		
2043	87,712	138,489	203,120	175,418	406,237	-	-		
			Funding 100% Estimate>>>>>>>>>>>>			$ 198,863	$306,140		
			Net College Expense Estimate for 2 Children ages 12 and 1				$505,003		
								Total Cost	
								$ 505,003	
							Total Monthly Savings	$2,095.83	

*Assumes a 4% growth rate on all college related expenses.

Note these estimates are for Tuition and Room and Board. You must add books, travel expense, and spending money.

Note. Tuition estimates are based on projections provided by The Princeton Review. https://www.princetonreview.com/

– Insurance Analysis –

Although Foresight does not sell any insurance policies or products, we have the ability to analyze your current insurance coverage and research ways to potentially improve your insurance portfolio. Areas of insurance that Foresight is able to analyze include Life, Health, Home & Automotive, Disability, and Long-Term Care.

Long-Term Care is an essential part of the retirement planning process and is a large expenditure for retirees. According to a study done by Morningstar in 2019, an estimated 47% of men 65 and older and 58% of women 65 and older will need long-term care during their lifetimes[2]. The cost of this care today is upwards of $100,000 yearly for a private room at a nursing home, but with healthcare costs rising faster than normal market inflation, that yearly cost could double in the next 20 years. A Foresight example of a Long-Term Care Analysis Table is on the next page.

LONG TERM CARE SIMULATION

Buy LTC Insurance **vs** Pay Out-of-Pocket

Assumptions:
1). Purchase a Couple LTC Policy that covers $100 per day each for 3 years
2). Include a compounded inflation rider & shared benefit rider
3). Annual premiums will increase over time at a rate of about 4% annually.
4). Sample Family live to their average life expectancy and 1 spouse moves into nursing home age 90 for the remaining 3 years of their life expectancy.
-or-
5). Invest money that would've been spent on LTC premiums in moderate portfolio and use proceeds to pay nursing home expenses out-of-pocket.

Assumptions:	Moderate Growth
RoR	7%
Std	14%
Premium Increase	4%
Premium Std	12%

Recommendation:
According to the simulation results, purchasing a LTC policy is less expensive than paying for LTC out-of-pocket. There are however many variables and factors to consider when making this decision, some are listed below. We advise you to speak with an insurance professional with access to policies from multiple insurers when making your decision.

His Sample Starting Annual Premium	$ 943
Her Sample Starting Annual Premium	$ 1,057
Current Annual Nursing Home Cost (MI 2022 Average)	$ 112,785
Average Annual Nursing Home Appreciation Rate	3.00%
Coverage Per Day	$ 100
Total Combined Coverage per year for 3 years in today's $	$ 73,000

**All of the above data is according to Genworth Financial, Inc. This data is closely aligned with other reputable sources*

Option 1: Pay for LTC Insurance

Option 2: Invest money you would have spent and pay for nursing home expense out of an investment pool.

Year	His Age	Her Age	His Annual Premium	Her Annual Premium	Combined Prem Cost	Combined Coverage with 3% Inflation Protection		Nursing Home Cost For 1 Person, Private Room w 3% rise			Invest Pool*		Invest Pool*
2022	40	40	$ 943	$ 1,057	$ 2,000	$ 73,000		$ 112,785		*Invest annual premium expenses as they would've been incurred>*	$ 2,000	*Invest total amount that you would've paid for LTC insurance>*	$ 319,548
2023	41	41	981	1,099	$ 2,080	75,190		116,169			4,438		301,284
2024	42	42	1,020	1,143	$ 2,163	77,446		119,654			7,207		359,719
2025	43	43	1,061	1,189	$ 2,250	79,769		123,243			8,653		404,695
2026	44	44	1,103	1,237	$ 2,340	82,162		126,941			11,122		507,753
2027	45	45	1,147	1,286	$ 2,433	84,627		130,749			14,583		491,321
2028	46	46	1,193	1,337	$ 2,531	87,166		134,671			24,014		466,128
2029	47	47	1,241	1,391	$ 2,632	89,781		138,711			28,572		503,822
2030	48	48	1,291	1,447	$ 2,737	92,474		142,873			30,198		629,393
2031	49	49	1,342	1,504	$ 2,847	95,248		147,159			38,309		652,188
2032	50	50	1,396	1,565	$ 2,960	98,106		151,574			55,083		841,692
2033	51	51	1,452	1,627	$ 3,079	101,049		156,121			70,348		784,717
2034	52	52	1,510	1,692	$ 3,202	104,081		160,804			95,188		1,170,807
2035	53	53	1,570	1,760	$ 3,330	107,203		165,629			106,610		1,362,581
2036	54	54	1,633	1,830	$ 3,463	110,419		170,597			100,516		1,711,298
2037	55	55	1,698	1,904	$ 3,602	113,732		175,715			89,940		2,076,504
2038	56	56	1,766	1,980	$ 3,746	117,144		180,987			96,409		2,243,668
2039	57	57	1,837	2,059	$ 3,896	120,658		186,416			91,530		3,232,284
2040	58	58	1,910	2,141	$ 4,052	124,278		192,009			89,809		3,480,480
2041	59	59	1,987	2,227	$ 4,214	128,006		197,769			103,008		3,676,979
2042	60	60	2,066	2,316	$ 4,382	131,846		203,702			110,459		4,402,488
2043	61	61	2,149	2,409	$ 4,558	135,802		209,813			127,041		4,510,591
2044	62	62	2,235	2,505	$ 4,740	139,876		216,108			147,717		5,071,484
2045	63	63	2,324	2,605	$ 4,929	144,072		222,591			197,881		4,952,617
2046	64	64	2,417	2,709	$ 5,127	148,394		229,269			255,972		4,616,528
2047	65	65	2,514	2,818	$ 5,332	152,846		236,147			255,767		5,604,479
2048	66	66	2,614	2,931	$ 5,545	157,431		243,231			222,218		6,161,562
2049	67	67	2,719	3,048	$ 5,767	162,154		250,528			221,936		4,660,555
2050	68	68	2,828	3,170	$ 5,997	167,019		258,044			261,273		4,779,049
2051	69	69	2,941	3,296	$ 6,237	172,029		265,785			344,032		5,019,975
2052	70	70	3,059	3,428	$ 6,487	177,190		273,759			311,129		5,180,345
2053	71	71	3,181	3,565	$ 6,746	182,506		281,972			400,338		5,155,257
2054	72	72	3,308	3,708	$ 7,016	187,981		290,431			386,601		5,253,957
2055	73	73	3,440	3,856	$ 7,297	193,620		299,144			381,680		5,717,508
2056	74	74	3,578	4,011	$ 7,589	199,429		308,118			446,253		6,443,107
2057	75	75	3,721	4,171	$ 7,892	205,412		317,361			482,634		7,825,604
2058	76	76	3,870	4,338	$ 8,208	211,574		326,882			582,055		9,132,930
2059	77	77	4,025	4,511	$ 8,536	217,922		336,689			630,059		10,688,027
2060	78	78	4,186	4,692	$ 8,878	224,459		346,789			725,625		11,822,829
2061	79	79	4,353	4,879	$ 9,233	231,193		357,193			796,485		13,142,636
2062	80	80	4,527	5,075	$ 9,602	238,129		367,909			919,185		17,503,873
2063	81	81	4,708	5,278	$ 9,986	245,273		378,946			857,161		19,003,743
2064	82	82	4,897	5,489	$ 10,386	252,631		390,315			939,174		21,452,480
2065	83	83	5,093	5,708	$ 10,801	260,210		402,024			1,063,494		26,897,252
2066	84	84	5,296	5,937	$ 11,233	268,016		414,085			1,164,531		26,714,064
2067	85	85	5,508	6,174	$ 11,682	276,056		426,507			1,110,650		32,406,355
2068	86	86	5,729	6,421	$ 12,150	284,338		439,303			1,163,458		30,437,218
2069	87	87	5,958	6,678	$ 12,636	292,868		452,482			1,448,767		31,461,366
2070	88	88	6,196	6,945	$ 13,141	301,654		466,056			946,844		29,116,456
2071	89	89	6,444	7,223	$ 13,667	310,704	932,384	480,038	1,440,533		687,192		29,657,792
2072	90	90	6,702	7,512	$ 14,213	320,025		494,439			287,199		32,407,498
Total Lifetime LTC Policy Premiums Paid:			$ 150,667	$ 168,881							^ Cash remaining after paying nursing home expenses		^ Cash remaining after paying nursing home

Est Combined Cost of His and Her Total Lifetime LTC Insurance Premiums Paid: $ 319,548

Total Est Combined LTC Insurance Coverage Allowance $ 932,384

Total Est Cost for 3 years in nursing home $ 1,440,533

Est Cost for 3 years in nursing home Net of LTC Policy: $1,440,533 Est Nursing Home Cost - $332,384 Est LTC Policy Coverage = $508,149 Est Net out of pocket cost not covered from LTC policy $ 508,149

Option 1: Pay for LTC Insurance — **Total Out of Pocket Expense for Purchasing a LTC Policy and self funding any remaining Potential LTC Needs not covered by the LTC Policy** $ 827,697

Out of Pocket Expense for Self Funding 100% of any Potential LTC Needs $ 1,440,533

Option 2: Invest money you would have spent and pay for nursing

Considerations:

-Most often, money paid into a LTC policy is not returned if long term care is not needed.

-Insurance companies that sell LTC coverage are known to increase premium rates over time, especially as the insured grows older. When premiums are increased they can rise as much as **100%**, this is accounted for in this simulation by raising premium costs by 4% each year.

-Those seeking LTC insurance are most often subject to health examinations that determine eligibility.

-Whether or not the LTC coverage can be applied to home care services or assisted living facilities depends on the insurer and on the specific policy purchased.

-Policies may not cover all of the costs associated with one's long term care needs, such as medical expenses in most cases.

-Some policies are tax qualified, so if one itemizes their deductions the premiums they pay may be deductible.

-Under Michigan's Long-Term Care Partnership program, individuals who seek to receive Medicaid are able to protect their assets on a dollar-for-dollar basis. Each dollar received in LTC benefits is a dollar in assets that is protected. Hypothetically, one could qualify for Medicaid benefits without having to sell off their assets if the amount of LTC benefits paid is greater than the value of their assets.

-Before some policies will begin coverage, they require the insured to have lost the ability to complete one or more everyday tasks such as bathing, eating, walking, etc.

-Some insurers offer a mix of LTC insurance with life insurance so that if a couple dies before the benefits are used, then a beneficiary inherits the benefits that were to be received.

Source:
www.Michigan.gov/difs

Note. Probability Distribution Functions supported in @Risk by Palisade. https://www.palisade.com/risk/

– Debt Repayment Plan –

During the debt repayment plan, Foresight works to craft a custom plan to refinance/pay off any family debt, as it makes sense with current interest rates, while optimizing the family's budget to continue saving for their short- and long-term investment goals and paying necessary lifestyle expenses. The key is to not focus exclusively on one area to the detriment of another. Holistic financial planning is a huge balancing act!

Source: https://www.presentermedia.com/powerpoint-animation/custom-life-balance-pid-13780

– Monte Carlo Lifestyle Analysis –

The Monte Carlo Lifestyle Analysis will be expanded on within its own chapter later in this booklet. However, this analysis and simulation brings all of the puzzle pieces of retirement together to create a clear picture of what retirement may look like! The analysis compiles all planned income, major lifestyle expenses, savings goals, taxes, and other customizable information to help determine proper retirement age, budget, and withdrawal strategy. Reference chapter 2 to learn more about the Monte Carlo Lifestyle Analysis.

– Budget Analysis –

Once Foresight determines the necessary levels of savings and expenses, Foresight examines the family's or individual's income to build proposed budgets for the client. The budget is built to include things such as mortgages, student debt repayments, college savings, pretax retirement plan savings, Roth savings, after-tax investments, insurance premiums, and other necessary lifestyle expenses and income. The goal is to determine what the “true” spendable budget is after you pay yourself first with proper savings and debt repayments. From here, a monthly spendable budget is created net of retirement plan contributions, taxes, and major life expenses. This net income can be used for any living expenses for the family, saving for financial goals like homeownership, vacations, recreational vehicles, clothes, golfing/sports, personal salon, children’s camps/events, and other family fun!

Family Budget - FCMA Proposal

2022	Monthly	Annually
Gross Income:		
Wife	$20,833	$250,000
Husband	$20,833	$250,000
Total Gross Income	$41,667	$500,000
Less 401(k) Contributions (Max funding $20,500 each)	$3,417	$41,000
Total Gross Income Net of Retirement Contributions	$38,250	$459,000
Taxes:		
Estimated family Taxes for 2022	$10,321	$123,854
Net Income:		
Family	$27,929	$335,146
Total Family Income net of Taxes	$27,929	$335,146
MAJOR LIFE EXPENSES		
Mortgage, Property Tax and Home Insurance Payment	$2,238.63	$26,864
Business Loan	$2,191.50	$26,298
Student Loans	$4,125.25	$49,503
College Savings into 529	$658.33	$7,900.00
After Tax Brokerage Savings	$1,666.67	$20,000.00
Backdoor Roth	$1,000.00	$12,000.00
Total Major Life Expenses	$11,880	$142,565
Total Family Income net of Taxes & Major Life Expenses	$16,048	$192,581
EXPENSES		
Debt Service:		
Vehicle Payment	$562.00	$6,744
CC Min	$90.00	$1,080
Leisure/ Necessity lifestyle:		
Food (Grocery/Dining Out)	$750.00	$9,000.00
Transportation (Gas, Etc.)	$200.00	$2,400.00
TV & Subscriptions	$131.55	$1,578.60
Insurance:		
Family Life Insurance	$336.50	$4,038.00
Family Disability Insurance	$384.33	$4,612.00
Family Health Insurance	$1,000.00	$12,000.00
Personal Liability Insurance	$50.00	$600.00
Auto	$155.00	$1,860.00
Utilities:		
Gas	$40.00	$480.00
Electricity	$160.56	$1,926.72
Water, Sewer, Garbage	$30.00	$360.00
Internet	$115.00	$1,380.00
Phone	$163.52	$1,962.24
Misc:		
Child care	$1,440.00	$17,280.00
Total Monthly Non-Major Expenses	$5,608.46	$67,301.56
Average Discretionary Spending Net of All Expenses:	$10,439.99	$125,279.88
This can include any extra expenses, vacations, recreational vehicles, clothes, golfing/sports, personal salon, childrens camps/events, and other family fun		

– Withdrawal Strategy –

Once the Monte Carlo and Budget Analysis have been completed, the Withdrawal Strategy follows. This is a crucial step towards making the maximum amount of money available to you in retirement. During this chapter, a Roth Conversion strategy may be deployed for the family that will ultimately lower the family RMD's, or required minimum distributions, in retirement and will lower the overall tax burden for the rest of the family's life.

How is my RMD calculated?

Account balance as of December 31, 2030
$3,013,172.88
÷
Life expectancy factor: **25.6**
= $117,702.07

Your life expectancy factor is taken from the IRS
Uniform Lifetime Table (PDF)

How is my RMD calculated?

Account balance as of December 31, 2030
$1,947,434.05
÷
Life expectancy factor: **25.6**
= $76,071.64

Your life expectancy factor is taken from the IRS
Uniform Lifetime Table (PDF)

Source: Charles Schwab & Co. Inc, - Traditional RMD Calculator. https://www.schwab.com/ira/understand-iras/ira-calculators/rmd

There are two paths traditionally implemented through retirement. Dr. Ordinary chose not to implement a Roth conversion strategy and to pull from the family pretax assets right away. This is what many people do and they miss out on the opportunity of huge future tax savings. However, Dr. Success implemented a Roth conversion strategy during early retirement. During his early retirement years, Dr. Success was in the middle of the 12% tax bracket. Once age 72, Dr. Success RMDs would push the family to the 24% income tax bracket. Dr. Success filled out the 12% and 22% brackets now and converted an estimated $600,000 from the pretax assets to his new Roth IRA. This lowered the family tax liability in the long run by lowering the RMD's at age 72 by an estimated $41,000. This will save approximately $10,000 in taxes every single year for the rest of their lives.

Family Withdrawal Strategy

His Age	Her Age	Year	Gross Income Including Health Care	Funds to Withdraw	Amount to Withdraw	Roth Conversion Amount @ 12% Federal Tax Bracket	Ordinary Income Taxable Portion
70	67	2031	$248,658	Practice Buyout	$15,000		$15,000.00
			$231,158 Gross Lifestyle	His Social Security	$46,420		$39,457.00
			$17,500 HC Costs	Her Social Security	$23,136		$19,665.60
est After Tax Funds beg Value		$2,822,265.00		After-Tax Withdrawals	$164,102		
est After Tax Funds end Value		$2,844,234.41					
					$248,658	**Estimated Roth Conversion**	Estimated Taxable Ordinary Income
						$36,677	**$74,122.60**

Both strategies will work, implementing and not implementing a Roth conversion strategy. However, the Roth conversion saved Dr. Success over $200,000 in taxes throughout the rest of his life while creating a Roth of approximately $600,000 which will grow tax free for the rest of his life. This Roth can act as an after-tax account and can be used for family purchases throughout retirement should the family need it for items such as replacement vehicles, wedding expenses, LTC costs, gifting, or a future inheritance for their children and grandchildren.

Once the Financial Plan is formalized and completed, Foresight helps implement the plan with the client every step of the way. Read more about the Custom and Personalized Services at Foresight in Chapter 5 of this booklet.

The final step of the process is to Monitor. During this step of the process, Foresight will continue to evaluate and monitor financial performance, and work with the client to adjust investment strategies based on both clients' needs as well as financial market conditions. Foresight meets with clients yearly for annual reviews where we summarize their portfolio and re-examine financial goals. Foresight is very flexible with clients and can work with individuals to produce customized analysis during this time for other financial questions that may arise. Our firm is always here to continue to examine the holistic financial planning portfolio of the client to make necessary adjustments. Throughout this process, the ultimate balancing act is given stability and begins to shore up!

Source: https://www.presentermedia.com/powerpoint-clipart/stick-figure-walking-tightrope-pid-3675

2. MONTE CARLO LIFESTYLE ANALYSIS

Foresight understands the importance of managing risk and uncertainty. That is why we use tools like the Monte Carlo Simulation to make research backed recommendations for our clients. Monte Carlo simulation is an analysis tool used by Foresight to determine the likelihood of achieving a desired retirement income given a multitude of factors and scenarios. This helps give families a reasonable expectation of what their current lifestyle/situation is and how it will affect their potential retirement income if they begin financial planning early enough in their careers. Also, families can make impact decisions and changes to their lifestyle and savings that will bolster retirement income if they begin financial planning early enough in their careers. Foresight recommends that a family saves 15% of their gross income every working year to best achieve your goal retirement date. The sooner you start saving the less complicated retirement planning becomes.

Unlike simple retirement calculators that just take into account average rate of return, yearly savings and the number of years until retirement, Monte Carlo is more intuitive and works using probabilities rather than straight math. Stocks and bonds do not offer steady returns and can suffer in economic downturn. Monte Carlo anticipates these fluctuations in the many simulations that are calculated. It accounts for the best years in the market as well as the rough times of recessions. This allows clients and advisors to work together to create a plan that is obtainable and will having staying power through the different cycles of the economy.

Each Monte Carlo is unique and customized for families based on age, gross income, savings, taxes, retirement income lifestyle, and retirement goals that each create input into the simulation program. The risk tolerance level, that the family is comfortable with, is then applied to their investment savings. Foresight uses conservative, moderate, and aggressive risk portfolios to assess a client's ability to take on risk. The Monte Carlo simulates the volatility and growth in the market and a wide range of possibilities that can unfold in the market over time. An average is taken from those simulated possibilities (given the variables and parameters that fit the family's life) and an output will then show the percent possibility of reaching the desired retirement income goal or desired retirement age goal. To ensure that families have the highest probability of reaching their goals, Foresight will only advise families with a Monte Carlo scenario that passes with at least a 90% chance of success at ages 90 and 95.

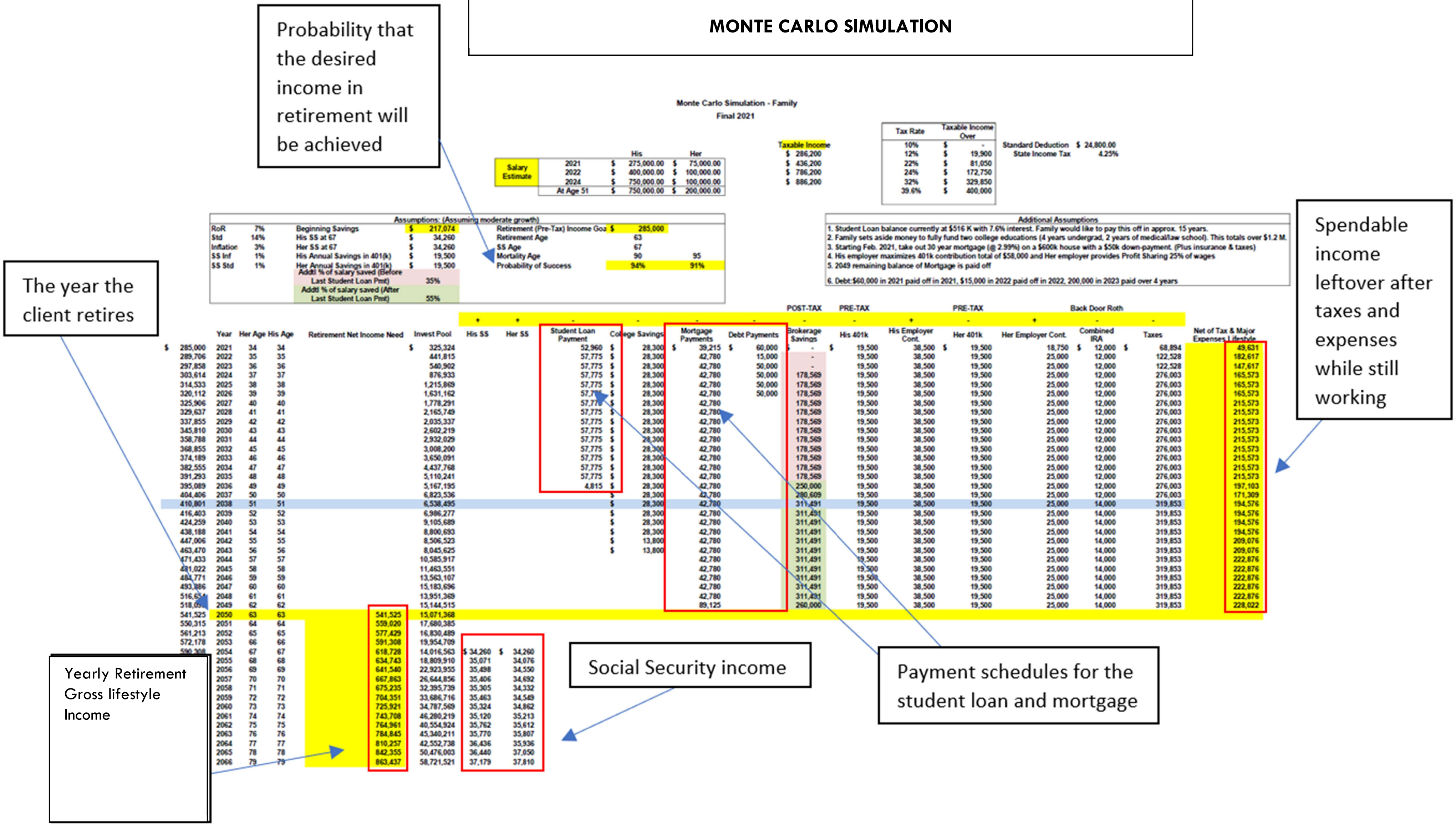
Foresight takes a holistic approach when advising families and realizes there are more factors to a financial picture than just investments. 401(k) contributions and profit sharing from an employer are taken into account. Clients receiving an inheritance can have the assets or cash accounted for as a part of their whole financial picture. Loans such as car payments, mortgages and student loans can be amortized and included. A Monte Carlo is a great way to visualize these loan payments and to see when and how they can be paid off. Starting a college fund can be broken down into the amount that should be saved each year to reach their children's educational goal. Foresight does offer personalized college planning for families to help manage college cost. Large savings goal such as second home, weddings, boat etc. can be built into the Monte Carlo. Look at the following image to see how these specific situations are displayed on a Monte Carlo.

Monte Carlo Simulations are highly customizable and can incorporate many different factors such as paying off student debt, managing mortgage payments, education funding goals for children, and saving for retirement all while creating a smooth lifestyle budget.

These Monte Carlo simulations have true staying power with their ability to simulate fluctuations in the economic markets. A real-life example of this happened with the Planner Family. The Planner Family came into Foresight and created their initial holistic financial plan about 5 years before they wanted to retire. The Planner Family took the investment recommendations, for their specific financial goal, and self-implemented the financial planning ideas. Five years later, the Planner Family returned to Foresight to refresh and update their Financial Plan as well as their Monte Carlo Simulations. After all those years, this family had implemented Foresight's ideas initially presented and it doubled their investment pool in the five years leading up to retirement, just like their initial Monte Carlo had indicated five years earlier. The updated Financial Plan and Monte Carlos were completed and the Planner Family comfortably headed into full retirement knowing that the implementation and proper financial planning had prepared them for their journey ahead!

RETIREMENT LIFESTYLE EXAMPLE

MONTE CARLO SIMULATION



Note. Probability Distribution Functions supported in @Risk by Palisade. https://www.palisade.com/risk/

3. ALTERNATIVE INVESTMENTS

High-net-worth families are usually targeted and attracted by the opportunities of alternative investments, which they believe can turn into a valuable asset and provide higher payouts. They also believe that alternative investments are a good tool for getting rich quicker and providing continuous passive income. Although getting rich quickly would be wonderful, the risk inherent in such investments comes with potential for very great loss. In addition, such risky investments may also be scams or involve fraudulent schemes that carry potential legal exposure.

First, what are the alternative investments, and why are they so attractive to the investor?

Alternative investments are a non-traditional approach to investing in different vehicles, such as real estate, commodities, private equity funds, cryptocurrency, etc. More and more investors are considering alternative investments as a good way to hedge against poor stock market performance or to provide a form of passive income.

Source: https://pixabay.com/vectors/realtor-real-estate-house-home-5809182/

For example, real estate is considered an alternative asset when people buy or flip investment property such as office buildings, residential apartments, or houses. Such investment can provide steady, reliable income, but it also has expenses; monetary expenses like property taxes along with huge investments of time and effort for property maintenance, etc. One of the well-known ways to invest money in real estate is BRRRR strategy that stands for "Buy, Rehab, Rent, Refinance, Repeat". The BRRRR strategy aims to enable new or seasoned real estate investors to build a property portfolio that can provide long-term passive income without needing a significant amount of upfront capital.[3] However, it is important to consider if you want to spend your time on managing, rehabbing, renovating, and flipping the properties and to also take the time to look for good tenants to rent your property. Be aware that the bank's appraisal value might be lower than your estimation of the value of the property. Also be aware that you might wait a year or longer to finance the next property due to the bank's required seasoning period.

Before you consider any alternative investments, it might help to understand certain challenges and consider limitations. Foresight recommends completing the first three investing steps before adding the alternative investments to your portfolio.

1. Contribute and increase savings to maximize an employer-sponsored plan such as 401(k), Roth 401(k), or 403(b). These accounts allow you to invest in mutual funds. Employers often provide a company match on your contributions that is considered to be free money you receive by participating in the retirement plan.
2. Create a Roth IRA or backdoor Roth. The Roth savings is after-tax dollars, meaning that you will have tax-free growth and withdrawals of your money in retirement.
3. After you maximize the savings into your 401(k) and IRAs, then a brokerage account needs to be added to your portfolio. In a brokerage account you can add additional diversification into stocks, mutual funds, ETFs, municipal bonds and other securities. The brokerage account should include an emergency savings of 6-to-8-months of wages and also setback funds for large purchases such as: vehicles, travel, homes, weddings, etc.
4. Only after the above three portfolios are built should you consider investing in alternative investments, such as real estate, commodities, private equity funds, or cryptocurrency. This provides an opportunity for portfolio diversification and adding appropriate risk management to your families' savings goal.

Remember, you must always do your due diligence regarding alternative investments, verify all information provided by a salesman or an issuer, and analyze all aspects of the investment (including the time you will spend managing it). Swindlers usually make every attempt to persuade people that they are legitimate and the offers are rare opportunities for promising returns. In 2021, consumers reported losing more than $5.8 billion to fraud, a 70% increase over the prior year, according to the Federal Trade Commission.[4] Additionally, consider all the risk that you are taking—alternative investments are complex investments with limited regulations, have higher fees and costs, are typically less liquid and less transparent, can require excessive time management, and also can have high carrying costs and unexpected results.

Alternative investments are a different path to potentially increase your wealth, but they carry a high level of risk, so buyers need to beware and only add them when everything else is in place from a savings perspective.

4. LIFE COACHING

A large part of prudently advising clients is not only coaching them through key financial decisions, but also key life decisions. It is important to be able to work with clients throughout all their life phases: the balancing act that's required to start their careers, the accumulation phase of investing while working, and ultimately the distribution phase in retirement. Key financial decisions and life decisions often have a lot of overlap. Paying off student loans, understanding the benefits at a first job out of college, purchasing a first home, and planning for a family are all key financial and life decisions that will ultimately influence how happy an individual or family are over the long-term.

"Don't save what is left after spending; spend what is left after saving."

- Warren Buffett

Source: https://pixabay.com/illustrations/warren-buffett-rich-money-5000311/

The entire holistic approach explained in chapter one demonstrates how key financial decisions are made over the lifespan of an individual or family. It also starts to demonstrate how life coaching is achieved throughout the process. The life coaching aspect of financial planning begins immediately upon the start of an individual's career. This is one of the most delicate and challenging phases as the investor's knowledge and experience is generally at its lowest level. It's extremely important to get started on the right foot, as most individuals graduating from college are beginning their careers living at home with student loan debt. This is where the "ultimate balancing act" comes into play as individuals find the balance between starting to save for their first home, paying back student loans, establishing a budget, and starting to save for retirement.

Budget Analysis		
Income Source	**Income Amount**	**Estimated Taxable Amount**
Base Salary	$80,000	$80,000
Estimated Bonuses and Additional Compensation	$90,000	$90,000
	$170,000	$170,000
Pre-Tax Savings Source		**Pre-Tax Savings Amount**
Pre-Tax 401(k) Savings		$6,765
Pre-Tax Health		$293.04
		$7,058.04
Standard Deduction		$12,950
Estimated Taxable Income		**$149,992**
Estimated State Tax Owed		$6,374.66
Estimated Federal Tax Owed		$29,833.57
Estimated Medicare Taxes		$2,465.00
Estimated Social Security Taxes		$9,114.00
Estimated Taxes Owed		**$47,787.23**
Estimated Gross Income		$170,000
401(k) Retirement Savings		$20,500
Recommended Non-Deductible/ Backdoor Roth IRA Savings		$6,000
Estimated Taxes		$47,787.23
Estimated Student Loan Payments		$10,497
Estimated Mortgage Savings		$12,000
Estimated Wedding Savings		$9,000
Estimated Annual Net Spendable Lifestyle		**$64,216**

The above example is for a young attorney just starting in her career. This particular client was solely focused on saving for a down payment to purchase her first home. With the help of our guidance, we were able to provide a life coaching approach to her financial situation. Instead of just focusing on saving for a home down payment, we helped analyze her entire situation and recommended retirement savings and investments, a student loan repayment strategy, and a strategy to save for her upcoming wedding. Once all areas of saving, investing, and tax planning are accounted for, we then get to the net spendable lifestyle for the client to implement. The goal of this budget analysis is to set a base lifestyle while making sure to account for all other important financial expenses/ savings. Another main focus of setting the lifestyle budget up front at the beginning of someone’s career is to implement the “Pay yourself first” method. This savings method focuses on first and foremost paying yourself by saving for your own retirement before starting to spend your net paycheck on lifestyle expenses. It's important to implement this strategy at the beginning of your career so you are immediately accustomed to properly saving for retirement and not spending your entire net paycheck.

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https://www.canva.com/design/DAE_2vT3wP0/kpsYYdJ2geN4FG0Mk7XGjw/edit#
A quote by George Samuel Clason, an American entrepreneur

At Foresight, we have seen several examples of professionals who have started their retirement savings too late and have since struggled to successfully retire. Dr. Much is an example of a client starting too late and "playing catchup" with their retirement savings. Dr. Much has always been a highly compensated professional working in the medical field, but instead of immediately implementing the "pay yourself first" strategy, Dr. Much spent most of his net paychecks at the beginning of his career. After years of spending most of his net paychecks on houses, cars, and other discretionary expenses, Dr. Much eventually paid off all of his student loan debt, established a budget, and started saving for retirement, but was still not able to reach his goal of retiring early and replacing at least 70%-80% of his working wages. If Dr. Much were to have "paid himself first" immediately when starting his career, he wouldn't have fallen into the trap of getting use to overspending and procrastinating on taking control of his financial life, and would've been able to meet his financial goals and successfully retire early. The key is to start saving early so the investments compounding of growth work over your entire career not just the last 20 years of your career. Instead, Dr. Much is working with Foresight for life coaching later in life and will need to work longer to achieve his financial and life goals for retirement.

Source:
https://www.presentermedia.com/powerpoint-clipart/holding-money-bag-pid-14048

F.I.R.E

FIRE movement is a lifestyle that's focused on the goal of achieving financial independence and retire early.[5]

FIRE is achieved through aggressive saving, far more than the standard 10 –15% typically recommended by financial planners.[6]

In order to achieve a FIRE retirement, you have to maximize your income while minimizing your expenses and starting to do that as early as possible — will allow you to grow your retirement savings to a point where they can assure you financial stability in your later years.[7]

Source: Brenoff, A; CNNMoney; Kerr, A.
Note, see reference page.

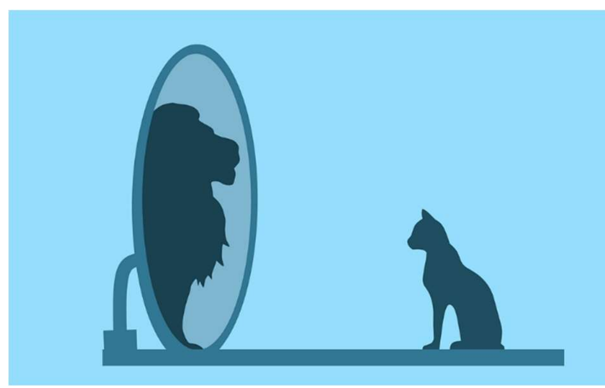
An example of a client who successfully met their financial goals and retired early were Mr. and Mrs. Early. These clients started the financial planning process with Foresight immediately at the beginning of their respective careers and were able to start their financial lives out on the right foot. Mr. and Mrs. Early also weren't looking to retire at full retirement age or normal retirement age (typically defined as between ages 65-67), they wanted to implement the F.I.R.E movement (Financial Independence, Retire Early). The F.I.R.E movement focuses on aggressively saving and paying yourself first to achieve financial independence early, allowing a couple like Mr. and Mrs. Early to retire in their early 50's. To implement the F.I.R.E movement, a significant amount of life coaching is needed. Since implementing the F.I.R.E movement requires decreased spending, increased savings, and prudent investing, life coaching is vital in guiding clients through the several important financial and life decisions they make over their working careers. The success of a family's financial lives is determined not only by big life decisions like large purchases, picking a career field, and planning for a family, but the consistency of making prudent financial and life decisions. Financial success is reached by consistently making educated and prudent decisions again and again over decades. As with investing, these educated and prudent financial decisions compound into what becomes an overall successful life and reaching financial freedom. Having a trusted advisor walk side by side with you through life's important decisions makes all of this possible through life coaching.

5. STORIES BEHAVIOR

Investor behavior has a significant impact on the probability of successfully accumulating wealth and reaching financial freedom. As human beings, we all have similar behavioral biases which affect investment and life decisions. Some common behavioral biases that investors face include overconfidence, illusion of control, and the status quo bias.

– Overconfidence –

Young professionals, and particularly highly educated young professionals, are subject to overconfidence. Overconfidence is one of the biggest behavioral mistakes investors make. Remember Dr. Ordinary from Chapter 1? Dr. Ordinary is a classic example of a highly compensated professional that suffers from overconfidence. As with most physicians, attorneys, and other educated professionals, Dr. Ordinary is very intelligent. Dr. Ordinary completed decades of schooling to become a physician, and surrounds himself with other highly intelligent professionals. Why wouldn't Dr. Ordinary be confident about his investment abilities? Well, the problem is that the years of medical schooling that Dr. Ordinary completed didn't prepare him for being a prudent investor. Dr. Ordinary's overconfidence in his investment management led to him making several financial mistakes, such as: attempting to time the market, excess trading, and holding onto losing positions too long in hopes of recouping the



Source: https://pixabay.com/

losses. All of these mistakes can lead to poor financial outcomes. Overconfidence also leads investors to turn a blind eye to negative information when they feel confidently about a specific investment. Dr. Ordinary often ignores negative news surrounding the handful of stocks that he owns, as he believes his understanding of the companies outweighs any substantial news.

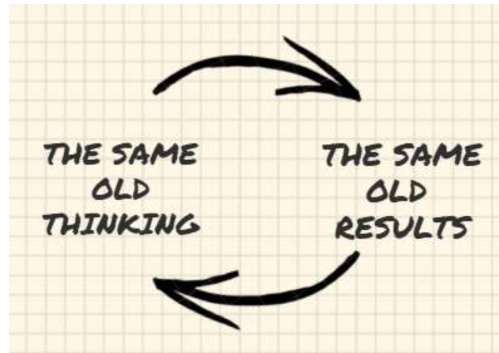
– Illusion of Control –

Dr. Ordinary also suffers from the illusion of control. Every day during his 30-minute lunch break, between seeing the 50+ patients that Dr. Ordinary services each day, he logs into his trading platform and trades the same handful of securities every day. This makes Dr. Ordinary feel like he is in control of his own financial outcomes, although he is not. The market can be unpredictable and as an investor, you never know what news may come out that will affect the market and especially individual securities. Dr. Ordinary also often trades Biotechnology stocks for companies that he is familiar with. Although Dr. Ordinary may understand the therapeutics or technology that these biotechnology companies offer, he is rarely ever in tune with the financials of the company or future expected earnings. By trading the same securities each day, Dr. Ordinary feels as though he can minimize his losses on down days and maximize his gains on up days. However, over time Dr. Ordinary consistently underperforms compared to broadly diversified portfolios and racks up excess trading fees and taxable income in his trading accounts. This is a prime example of the illusion of control, as Dr. Ordinary has no more additional control over his daily trading outcomes compared to simply buying and holding good companies with opportunities for growth and solid future outlooks.

Source: https://pixabay.com/

– Status Quo Bias–

Investors often suffer from status quo bias. This bias stems from several sources, but often from investors wanting to hold onto investments regardless of the future prospects of the investment or other outside factors that affect their financial lives. An example of this is investors who hold large, concentrated investment positions because they either inherited the securities, work for the company in which they own the securities, or suffer from the illusion of control. Status quo bias also often leads to an emotional attachment for the investor to the investments and makes it difficult for the investor to obtain and properly interpret new information regarding their investments. A perfect example of this comes from a client named "JR". This client works for a large automotive company in the Detroit area and invests most of his IRA assets into the company stock, in addition to owning the company stock, in his 401(k). JR believes that since his parents worked for the company and he currently works for the company, he wants to keep the status quo and continue to hold onto his company investments regardless of the gloomy outlook for the company's future. This has been the status quo in the family for years and it helped JR's parents successfully retire. In addition to the risk of owning a highly concentrated position in JR's portfolio, he is also risking his human capital along with his financial capital. What if the company that JR works for has financial struggles and needs to layoff JR? This would not only most likely cost JR his job and stable income, but would also most likely cause a subsequent drop in the stock price which would affect the value of JR's shares in the company. This is an example of the excess risk that status quo bias can lead to and why diversification is so important.



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Understanding these behavioral biases is only the first step in prudent financial and life decision making. Being able to identify these behaviors and control/ minimize the biases is what's important over the long-term. A company has cycles of high growth, maturity, and eventually becomes aged with minimal growth unless it regenerates itself. The company that made your parents successful investors may be a no growth investment for you. A fiduciary financial advisor can help with identifying and managing these behavioral biases and can give investors a fresh set of eyes to help with important financial and life decisions.

6. CUSTOM & PERSONALIZED SERVICES

At Foresight clients are recommended personalized investment portfolios to meet their specific goals and needs. Our advisors encourage those seeking the expertise from a financial planner to call us to schedule a free one on one consultation meeting. Then our advisors will be able to personally understand your needs and tailor our wide array of services to your specific situation. As a new client, you will be asked questions on our risk tolerance questionnaire so our advisors can best tailor a portfolio to your personal financial story. This questionnaire asks your age, when you will need income from investments, your investment growth goals, as well as your attitude about loss in the short term and long term. Once this is complete our advisors can get the process rolling and will be able to determine what course of action is right for you!

Foresight offers a diverse line up of investments to meet the needs of our clients, no matter the size of assets. Foresight helps clients plan for their future retirement and helps clients who are nearing retirement. Clients may choose to have Foresight invest their assets in a personalized portfolio or just meet for a financial plan with self-implement ideas. Foresight has many investment portfolio strategies to accommodate those in any financial picture. A financial plan client receives a full analysis on their current investments and recommendations are made to improve their performance. Financial plans can even cover children's college savings plan, social security analysis, and inheritance investing. We use a Monte Carlo simulation, as explained in this white paper, to calculate the probability of a client reaching their retirement goals under different circumstances.

For clients looking for a way to grow their health savings, Foresight offers HSA- Health Saving Accounts to invest for future health expenses. This will allow for pre-tax money to be invested that can later pay for qualified medical expenses. Foresight can also advise clients shopping for life insurance, long term care, or disability insurance to help determine what policy best fit their needs. When a client is paying down a loan or considering refinancing, Foresight can advise if a new loan or refinance makes sense with better terms. For business owners planning to eventually retire from ownership of their small business, we offer Certified Exit Planning for a smooth transition.

SUMMING UP

This might seem hard and a bit overwhelming, but to start making the right financial decisions it is wise to start early. Starting early will add the stability needed for the rest of your life. We all want to live an abundant life and fulfill our dreams by traveling and buying cars/houses, but there is a financial cost attached to all these wishes, for which we need to save and invest. It is your choice if you want to follow Dr. Success' path, taking control of your finances or Dr. Ordinary's path, focusing on luck and ignoring any financial planning. You are creating your future in which you can enjoy financial freedom and financial independence. Thus, start to take control of your finances early to reap the benefits of time and growth!

In this paper we covered the core of wealth building that includes:

- ✓ Holistic Approach
- ✓ Monte Carlo Lifestyle Analysis
- ✓ Alternative Investments
- ✓ Life Coaching
- ✓ Stories Behavior
- ✓ Custom & Personalized Services

“THE BEST THING MONEY CAN BUY IS FINANCIAL FREEDOM”

A quote by Rob Berger, author of Retire Before Mom And Dad-The Simple Numbers Behind A Lifetime Of Financial Freedom.

There is good news, you are not alone. Let Foresight help you to start mapping out your financial future.
Contact us at www.fcmadvisors.net
Call 734-429-4680
Email consultant@fcmadvisors.net

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