



# Personal Financial Planning

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**Disclaimer:** This presentation is for informational purposes only. Please consult your tax, investment, financial or legal advisor before taking any action based on it.

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**Experience and Background:** Ramesh works as a Risk and Analytics executive at one of the largest global Private Equity firms on Wall Street. He has more than 20 years of experience in personal financial planning and investments. He has successfully advised friends and family members over the years through three major financial crisis - Dot-Com bust (2001), Great Recession (2008) and Covid (2020).

**Investment Philosophy:** Ramesh is a strong advocate of disciplined & long-term approach to investing rather than one driven by greed or fear. He believes that, in core portfolio, it's futile to time the market in an attempt to buy low and sell high- countless people have been burnt trying doing that and lost substantial amount of savings. If you follow his **Horizon Investing** methodology, it will take guesswork and fear out of investing, reduce your stress and put you on a path to financial success!



# Personal Financial Planning: Topics

1. Savings, Protection & College Financial Planning
2. Tax Saving Strategies
3. Retirement
  - ❑ Medicare, Long Term Care, Social Security
  - ❑ Funding: How much you need? Funding Options
4. Estate Planning: Will, Probate, Trust, Estate Tax
5. Investments
6. Creating Personal Financial Plan: FinSolve

# Savings, Protection & College Financial Planning



# Savings

## Tax Advantaged Savings:

- ❑ 401(K)/IRA: Save Taxes now, max contribution (2024): \$23,000 (+\$7,500 catch up), employer match is free money
- ❑ Roth 401(K)/IRA (2024): Save Taxes Later, max \$7000 (\$1000 catch up), AGI phase out for MFJ \$218K-\$228K
- ❑ Backdoor Roth, Non deductible IRA 14K MFJ (2024)
- ❑ Health Savings Accounts: triple tax break, tax-free for medical uses, use for medicare premium

## Taxable Savings:

- ❑ Risk Free Vehicles: CDs, Money Market, 4-5% return, similar to inflation
- ❑ Bond Funds (AGG, LQD): 5-7% return
- ❑ Index (SPY, QQQ) ETFs: 8-11% return long term (>=7 years), may lose value in short term
- ❑ Dollar Cost Averaging - buy more shares when stock prices are low, disciplined saving
- ❑ Money needed in next 5-7 years or before should not be invested in Stock Index, should be in bond funds (details in investment section)/CDs/Money Market



# Protection/Insurance

## Protection/Insurance:

- ❑ Emergency Funds: 6-9 Month's expenses
- ❑ Auto Insurance: ~100K/300K/50K (Per person/Per Accident/Property Damage) liability coverage
- ❑ Home Insurance: >=80% for replacement cost, must increase periodically/after major renovation
- ❑ Renters Insurance: Personal content, Liability
- ❑ Health Insurance: Medical, Short & Long Term Disability, Long Term Care
- ❑ Life Insurance:
  - ❑ Rule of thumb ~coverage 8-10 times annual income
  - ❑ Term Life Insurance: Almost always better than whole life insurance
- ❑ Personal Liability Umbrella Insurance: personal liabilities not covered elsewhere
- ❑ Consider Higher deductible to lower premiums for any insurance

# Financial Calculator

## (www.FinCalculator.Com)



**EZ Financial Calculators**  
Bishinew Incorporated

OPEN

4.3 ★★★★★ 99 Ratings

What's New Version History

Version 7.2.1 1mo ago

- Add Split Window Support for iPad
- Add Health Savings Account Calculator
- Update Calculators

more

Preview

2:52 fncalculator.com Search Edit

Menu Retirement Cal...

**TVM Calculator** **Currency Converter** **Loan Calculator** **Compound Interest Calc...**

**Retirement/401K Calcul...** **Tip Calculator** **APR Calculator** **ROI Calculator**

**Auto Loan Calculator** **Auto Lease Calculator** **Credit Card Payoff Calculator** **Credit Card Minimum Payment...**

**Traditional IRA vs Roth IRA** **Required Minimum Distribution** **Social Security Estimator** **Asset Allocation Calculator**

### College Savings Calculator

Back

Annual College Costs	<input type="text" value="215,000"/>
Current Savings	<input type="text"/>
Years Until Enrollment	<input type="text" value="10"/>
Annual Return (%)	<input type="text" value="7"/>
Number of Years Enrolled	<input type="text" value="1"/>
Inflation Rate (%)	<input type="text" value="5"/>
Inflate Contribution	<input type="checkbox"/>

**Reset** **Calculate**

Annual Contributions **22,188.37**  
Projected Total Cost **350,212.34**

**Email** **Table**

### Social Security Estimator

Back

Note: This calculator gives estimates based on your current earnings. For more accurate estimation, please go to social security site:  
<https://www.ssa.gov/retire/estimator.html>

Year of Birth	<input type="text" value="1980"/>
Earnings in Current Year	<input type="text" value="150,000"/>
Current Dollar	Inflated (Future) Dollar
Annual Inflation (%)	<input type="text" value="3"/>

**Reset** **Calculate**

Monthly income at 62 in 2042: **1,992.33**  
Monthly income at 66 in 2046: **2,656.45**  
Monthly income at 70 in 2050: **3,541.93**

**Email**

### Retirement Income Analysis

Back

How much monthly retirement income?

Amount at Retirement	<input type="text" value="290,000"/>
Monthly Retirement Income	<input type="text" value="844.75"/>
Retirement Years	<input type="text" value="35"/>
Annual Return Rate (%)	<input type="text" value="1.165"/>

**Reset** **Calculate**

Retirement Monthly Income: **844.75**

**Email** **Amortization**



# College Financial Planning

## Projected Cost:

- ❑ Total cost of attending a 4 year private college in 2024-2025: \$235K (in-state public \$109K) (Source: College Board)
- ❑ For a 8 year child now, projected cost of private college \$383K (\$178K in-state public); Current Cost x1.63 (5% education inflation, 10 years), Use Financial Calculator

## Financial Aid:

- ❑ Grants (Need based, no need to pay back)
- ❑ Scholarships (Merit based, no need to pay back)
- ❑ Federal/State Loans (Low interest, must pay back)
- ❑ Tax Credits (Federal credit)

## Expected Family Contribution (EFC):

- ❑ EFC due to Income: Parents 22%-47% (Above ~\$25K) + Student 50% (Above ~\$7K)
- ❑ EFC due to Assets: Parents 5.6% + Student 20%
- ❑ Grand Parents/Relatives: 0% of assets, 50% of distribution, two years lag, use it in junior/senior year
- ❑ Asset Inclusions: 529 Plans, Education Savings Accounts, UTMA, Trusts
- ❑ Asset Exclusions: Retirement assets, cash value life Insurance, Annuities, Home, Cars
- ❑ Parent Protected amount—depends on household size, number of students attending college in household



# College Financial Planning - Contd.

## How to fund:

- 529 Plans: Tax free growth, State Tax Advantage, prepaid options, Parent: first two years, Grandparent: Last two years, can be used for K-12, another member of family
- New York Plan: NySaves.Org, NY state tax savings
- Regular Investments: higher growth but taxable
- Roth IRA: Can be used tax free if parent is 59 ½ at kid's college start or if funded for at least 5 years

## 2. Tax Saving Strategies



# Tax Saving Strategies - Earned Income

- ❑ Tax Deferred Growth:
  - ❑ 401(K):\$23,000+ \$7,500 catch up for 50 or older
  - ❑ IRA:\$7,000 + \$1,000 catch up for 50 or older
  - ❑ Non deductible IRA: Income limits for deductibility
- ❑ Tax Free Growth and withdrawal
  - ❑ Roth IRA: Income phase out from \$230,000-\$240,000
  - ❑ Roth-401K: Same limit as regular 401K
- ❑ Backdoor Roth conversion: No limit, pay taxes now
- ❑ Health Savings Accounts: Triple Tax deduction
- ❑ Flexible Spending Accounts
- ❑ Kiddie Tax, UTMA, UGMA:First \$1,100 tax free,next \$1,000 @10%
- ❑ American Opportunity Tax Credit: College education expense as tax credit, Max \$2,500, AGI limit 90K/180K
- ❑ Lifetime Learning Credit: 20% of \$10,000 expenses, AGI limit 80K/160K
- ❑ Dependent Care Credit: upto \$1,200 per dependent
- ❑ Child Tax Credit: Upto \$2,000 per child



# Tax Saving Strategies - Investment Income

- Capital Gain: Lower Tax rate if investment held for 1 year or longer; No tax if AGI < \$79K (MFJ)
- Tax Loss Harvesting: Deduct capital losses against capital gains, max annual loss allowed \$3,000, excess losses carry forward
- Harvest losses against ordinary income to get most tax benefits by claiming capital gains and losses in alternate years
- Tax Gain Harvesting: Up tax basis by selling appreciated asset in low income years
- Roth conversions during lower income years - retired but before social security benefit start, going to college, sabbatical years, one spouse not working
- Qualified Charitable Donations: Givings directly from IRA account
- Bequeathed assets from taxable account
- Donor Advised Fund: Accelerate deductions to high income years, donate appreciated securities
- Step up Basis at death: Pass on appreciated assets after death, basis for financial assets and home steps up at death
- 529 Accounts for education expenses
- Municipal Bond: Federal and state tax exempt
- Primary Home Sale: \$500,000 exempted from capital gains tax on sale of primary home, must have lived 2 out of 5 year
- Annuities: Tax free growth

# Effect of Taxes on Various Investment Account Types

## Key Takeaways:

- ❑ Tax advantaged accounts (401, Roth etc) have huge value over lifetime
- ❑ Roth Accounts are better in low tax years- start of career, gap years after retirement
- ❑ Taxable accounts are best to pass on at death

Effect of Taxes on Various Investment Account Types							
Contribution Type-->	Before Tax Contribution		After Tax Contribution				
Account Type by Tax Status-->	Tax Deferred Growth		Tax Deferred Growth		Taxed Growth		
Example-->	401K, IRA		Roth IRA/Roth 401K		Mutual Funds, ETFs etc		
Distribution Timing-->	During Retirement	After Death	During Retirement	After Death	During Retirement	After Death	
Before Tax Contribution Amount	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	
Invested Amount	\$100,000	\$100,000	\$68,000	\$68,000	\$68,000	\$68,000	
Future Value Gross-->	\$1,083,471	\$1,083,471	\$736,760	\$736,760	\$672,625	\$672,625	
Tax-->	(\$260,033)	(\$260,033)	\$0	\$0	(\$90,694)	\$0	
Net Value-->	\$823,438	\$823,438	\$736,760	\$736,760	\$581,931	\$672,625	
Net After Tax Annualized Return	8.8%	8.8%	8.3%	8.3%	7.3%	7.9%	
Key Takeaways:							
1. Net value of investments in a tax deferred/non taxable account may be higher by 40% to 50% than in a taxable account, depending on investment horizon, market return and tax rates.							
2. Before tax retirement accounts (401K and IRA) have better/same/lower net return than after tax retirement accounts (Roth IRA) if taxes in retirement are lower/same/higher than current.							
3. Because of step-up-basis rule, taxable accounts (Stocks, ETFs) have a higher return when passed on at death vs when used during lifetime.							
Assumptions							
Investment Return	10%	10%	10%	10%	10%	10%	
Dividend Return					2%	2%	
Effective After Tax Investment Return	10.0%	10.0%	10.0%	10.0%	9.6%	9.6%	
Number of Years	25	25	25	25	25	25	
Tax Rate Ordinary Income - Now	32%	32%	32%	32%	32%	32%	
Tax Rate Capital Gains - Now					20%	20%	
Tax Rate Ordinary Income- Retirement	24%	24%					
Tax Rate Capital Gains - Retirement					15%		
Retirement Tax Level Compared to Now	Lower						
	Higher/Lower By		8%				

### 3. Retirement



# Medicare: Federal Health Insurance

## Eligibility:

- 65 or older
- Younger people with disabilities
- People with End Stage Renal Disease (permanent kidney failure requiring dialysis or transplant)

## Coverage Options:

- Part A: Hospital insurance-covers inpatient hospital care, skilled nursing facility, hospice, lab tests, surgery, home health care
- Part B: doctor and other health care providers' services and outpatient care. durable medical equipment, home health care, and some preventive services.
- Part D: Prescription drug

## Exclusions:

- Long Term Care**
- Most dental care, vision
- Hearing aids and exams for fitting them
- Routine foot care

## Costs:

- Part A: Free with 10 credits
- Part B: Income based, approx. \$6,000 annual
- Part D: income based, approx. \$400 annual

# Long Term Care (LTC) Insurance

## Eligibility/Projected Cost:

- Usually not able to perform 2 of 6 activities of daily living (ADL): Eating, Bathing, Getting Dressed, Toileting, Transferring, and Continence
- Facts:
  - 52% of people reaching age 65 will need some LTC
  - 14% will need it for longer than 5 years, Avg. 2 years
  - Annual Cost: Median \$86,000; min \$55,000 (TX), max \$150,000 (CT)

## Typical Benefits/Taxes: Options to Buy:

- \$5,000 per month for 3 years after 3 month of waiting
- Covers nursing home care, home health care
- Benefits are Tax Free
- Standalone Insurance: typical premium \$1,800-\$2,700 per year, premiums not fixed, Use it or lose it.
- Hybrid Life Insurance Policy; returns money to heirs if you don't end up needing LTC, fixed premiums: Example (Age 47): premium \$3,400 per year, LTC benefit \$48,000 per year unlimited period, death benefit \$100,000,



# Social Security: Federal Pension and Disability Insurance

## Eligibility:

- Fully Insured: 40 Credits or about 10 working years
- Disability Insured
- Surviving or Nonworking spouse : Approx. 50%
- Normal Retirement Age (NRA) 67; Can start at 62

## Benefit Reductions/Increases:

- Early Retirement: 20% reduction for first 3 years, 10% for next 2 years (monthly prorated), max 30%
- Earned Income: \$1 in benefits reduced for \$2 in earnings above \$17,640 until you reach NRA
- Delayed Retirement: 8% increase per year of delay (monthly prorated) until age 70
- Benefits are Inflation indexed

## Taxation of SS:

- 50% of SS benefits are taxed if gross income > \$32,000(MFJ), \$25,000 for others

## Benefit Amount:

- Average \$18,000 per year per person
- Max \$45,000 at 70, \$36,000 at NRA, \$27,000 at 62
- Supplement SS with annuity for peace of mind



# Social Security: Major Retirement Asset

#1 or #2 Asset, Delaying until 70 is best for most

Major source of income, insurance against longevity

- ❑ Major retirement asset, even for upper middle-class; \$1.8M (25 year X \$70K per year for a couple); Check yours SSA.gov
- ❑ Inflation Indexed
- ❑ Typically 12-13 years to break-even when you start between 66-70 vs starting at 62
- ❑ 40% of those who claimed it early, come to regret their decision
- ❑ Don't count on dying on time! For a 65 year old couple today
  - ❑ 50% chance that one spouse will live to age 94; 25% chance to age 98

Will it be there when we retire?

- ❑ Even worst forecasts estimate it to 75% of current benefits level without any new taxes added after trust fund depletes
- ❑ Small tweaks to benefit level, eligibility age and social security tax rate, or a combination, would elongate the life of the trust funding social security by 75 years
- ❑ Elders are a potent voting block

# Retirement Funding Options

	401K/IRA/Roth	Regular Investment	Annuity
	Primary retirement funding besides Social Security	CDs/Bond Funds/Index ETFs/Stocks/High Dividend ETFs	Invest lump-sum, receive life-long income
Pros	Tax free growth, tax free withdrawal (Roth)	No RMD, High Return (9-11%), Step-up-basis at death, Taxed as capital gains, more investment choices, 4% rule	Guaranteed lifetime income, joint with spouse, inflation protection
Cons	RMD, Growth Taxed as ordinary income not as capital gain	Taxed growth, taxed withdrawal	Lock-up period, lower return (4-5%), small death benefit

## 4. Estate Planning



# Estate Planning: Passing on your legacy

## Taxes/Exemptions:

- ❑ What's a Estate: All assets (real estate, financial assets, cash, jewelry etc.) that deceased owned or had controlling interest at death
- ❑ Exemptions (2020): \$11.58M (\$23.16M Married)
- ❑ Federal Taxes: Top bracket 40% on entire estate above exemptions. Most states have abolished estate taxes
- ❑ Inheritance Taxes: Paid by inheritor, Most states have abolished; family members are usually exempted

## Ways to reduce Gross Estate Value:

- ❑ Lifetime gifts: \$15,000 annual exclusion per donee per spouse
- ❑ Put assets in various types of irrevocable trusts

## Will/Probate:

- ❑ Will: Legal document with instruction to distribute asset at death, NOLO Willmaker
- ❑ Probate: Court process to execute will
- ❑ How to minimize probate assets:
  - ❑ Beneficiary designations on financial assets
  - ❑ Qualified Personal Residence Trust (QPRT)

## 5. Investments



# Investments - Let Money Work For You

## How to get rich slowly (and steadily)

- ❑ Keep it simple: Invest only 3-4 Broad Market Index ETFs
- ❑ Dollar Cost Averaging:
  - ❑ Invest at a regular interval -every 2 weeks/monthly/quarterly
  - ❑ Set to automatically take out of your bank account
  - ❑ It automatically buys more shares when it's cheap and less shares when prices are higher
- ❑ Let go of fear: Don't look at market gyrations on a daily basis
- ❑ Greed is not good: Don't try to invest in hot stocks, remember dot-com bubble crash
- ❑ Trust the knowledge: This methodology has been proven time and again, numerous academic research, my personal experience for over 20 years
- ❑ Don't let money sit idle: Make it work for you always, every single day. Time in the market vs timing the market.

# Investments: Core & Satellite Portfolio Strategy

## Core Portfolio - Horizon Investing: At least 90% Assets

- ❑ Shorter Horizon -->Lower Risk Assets
- ❑ Bucket 1: <2 Years: No Risk: Bank CDs, Money Market, Buffer ETFs with 100% downside protection but capped upside
- ❑ Bucket 2: 2-4 Years: Low Risk: Total US Investment Grade Bond(AGG)
- ❑ Bucket 3: 5-6 Years: Medium Risk: US Investment Grade Corporate Bond (LQD), Bullet Bonds
- ❑ Bucket 4: >=7 Years: High Risk: Broad US Stock Market (SPY)
- ❑ Rebalance portfolio yearly or quarterly, Avoid market timing at all costs
- ❑ Guess: How much \$100K invested one time today @10.6% will be in 30 years??    **\$1,945,684**

## Fun Portfolio: Max 10%

- ❑ Higher Risk/Higher return than core, enhances total return
- ❑ High quality growth stocks, Mkt Cap >\$1B
- ❑ Alternatives Investments: Private Equity, Real Estate, Venture Capital, RIA via FOF manager
- ❑ “Speculative” Investments (Crypto, NFTs)

## 6. Creating Personal Financial Plan



# Creating Personal Financial Plan - FinSolve

## FinSolve- DIY Personal Financial Planning Software

- ❑ Annual Projections: Income, Expenses, Savings
- ❑ Asset Allocation: Portfolio rebalancing guidance
- ❑ Scenario Analysis
- ❑ Roth Conversion Optimization
- ❑ Medicare Premium Optimization
- ❑ Precise Federal and State Tax Calculations: More accurate projections and tax optimization
- ❑ Need Excel 365 Desktop version, download free from [FinSolve.us](http://FinSolve.us)