



Financial Planning Tour



Peter C. Golotko, CPA/PFS, MBA



What is Financial Planning

- Planning for the future
- Planning for a specific event in the future



What is the Key to Financial Planning?

- Saving Money
- Living below your means





You have challenges your
Grandparents never had.



Why Develop a Financial Game Plan?

- According to the United States Government, 95% of all people fail to reach age 65 independent of social security.
- To be in the 5% who succeed, you must:
 - **PLAN EARLY**
 - **PLAN EFFECTIVELY**



Retirement Realities

- Longer Life Expectancies
- More Ambitious Goals
- Many of Us May Not Save Enough



What Are My Sources of Income During Retirement?

Government

- Social Security

Employer-Sponsored

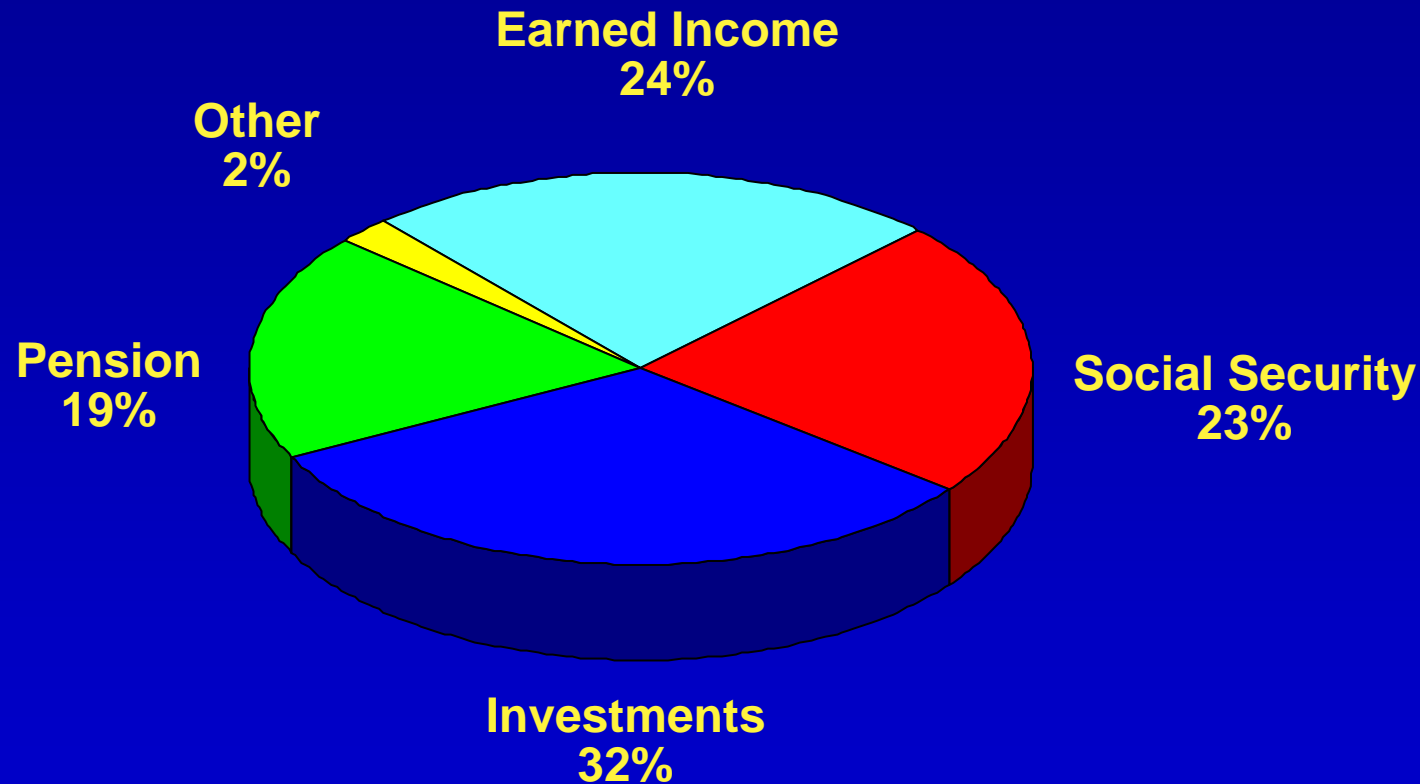
- Pension
- Profit Sharing
- 401(k) / 403(b)
- Keogh
- SEP

Personal

- Individual
- Savings
- IRAs
- Stocks & Bonds
- Mutual Funds



Retirement Income Sources



Pensions and Social Security Will Provide Less Than One-Half of a Person's Income at Retirement



Start Early to Maximize the Benefits of Compounding



Save Regularly

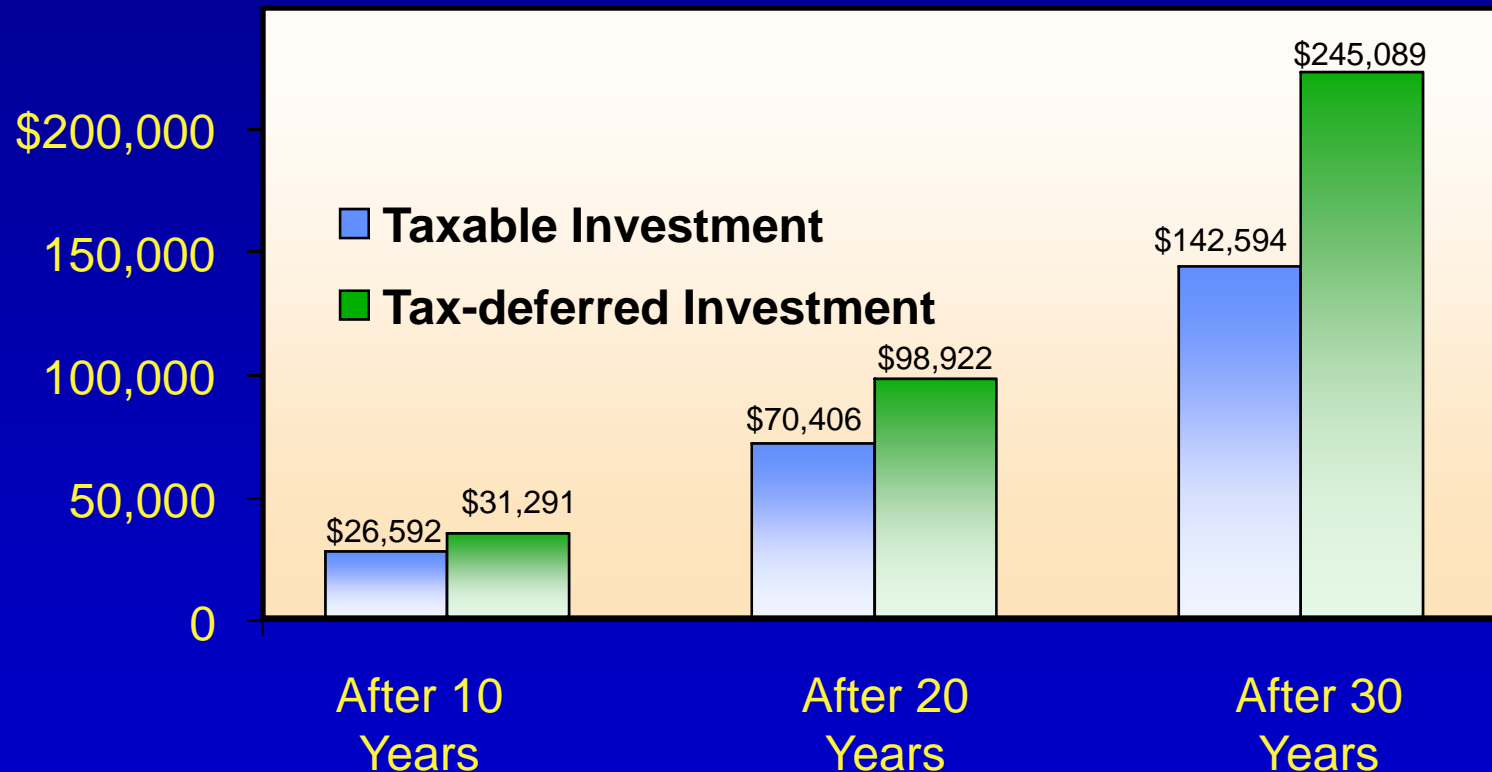
Monthly Investment	10 Years	15 Years	20 Years	25 Years	30 Years
\$100	\$18,775	\$35,189	\$59,308	\$94,745	\$146,815
\$300	\$56,324	\$105,567	\$177,923	\$284,236	\$440,445
\$500	\$93,875	\$175,946	\$296,538	\$473,726	\$734,075

Regular Savings Can Really Add Up

This hypothetical example assumes monthly investments of \$100, \$300, \$500, respectively, in a taxable account with an 8% annual rate of return. Earnings are not taxed. It does not reflect an actual investment in any mutual fund or product. The value of your original investment and your return may vary. Income taxes will be due when you withdraw your account. Periodic investment plans do not guarantee a profit nor protect against a loss in a declining market.



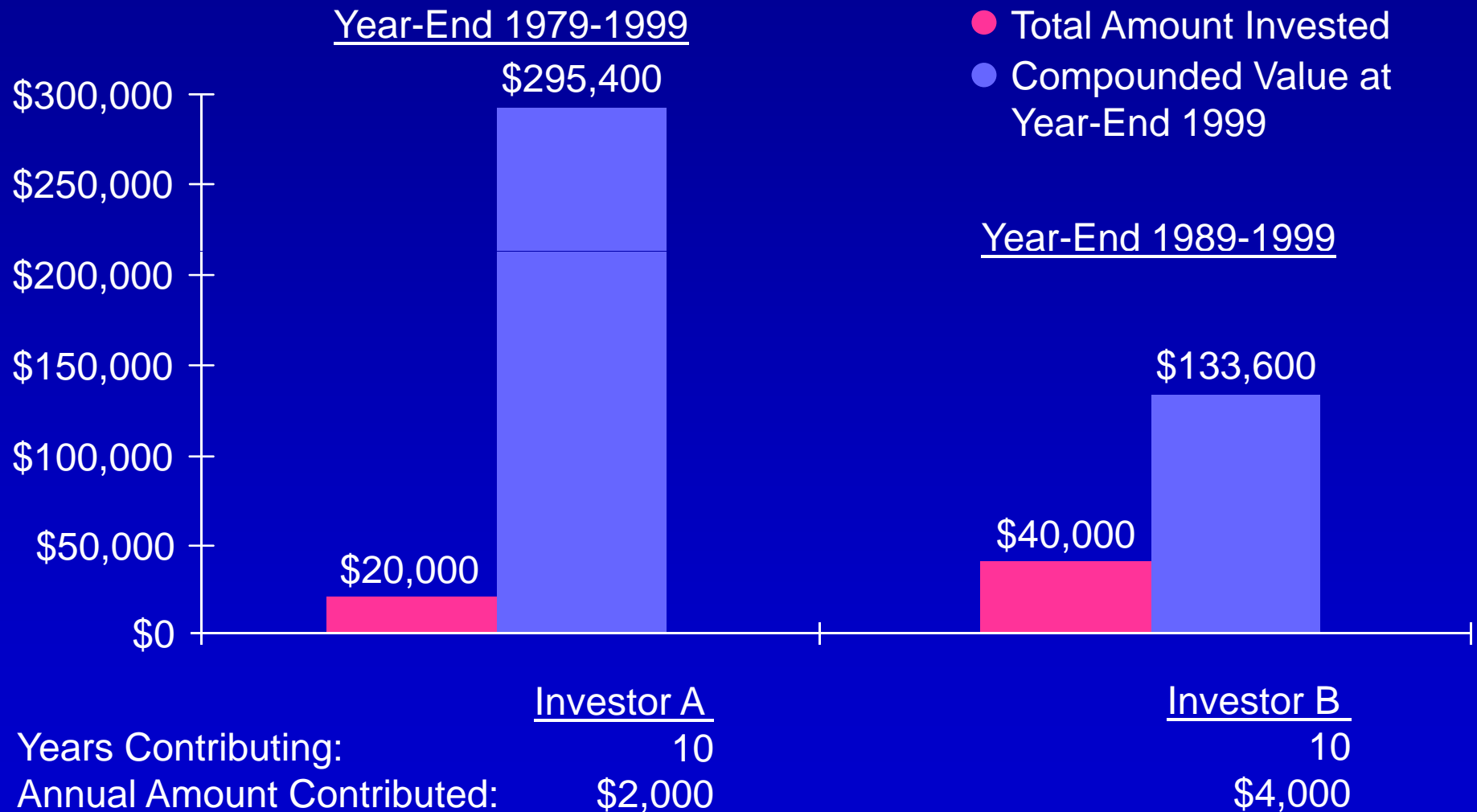
Make Use of Tax-Deferred Compounding



This chart assumes a hypothetical \$2,000 annual investment at the beginning of each year, an 8% annual rate of return, and a 36% federal tax bracket. The tax-deferred investments are non-deductible, and their earnings grow tax-deferred until withdrawn at the end of the specified period, when the earnings are taxed at the rate of 36%. The taxable investments are invested after-tax, and their earnings are taxed every year, and the tax liability is deducted from the balance. Distributions prior to age 59 ^{1/2} may be subject to a 10% early withdrawal penalty. This hypothetical example is for illustrative purposes and does not represent the actual performance of any mutual fund or product.

Power of Compounding

Hypothetical Investment in Stocks

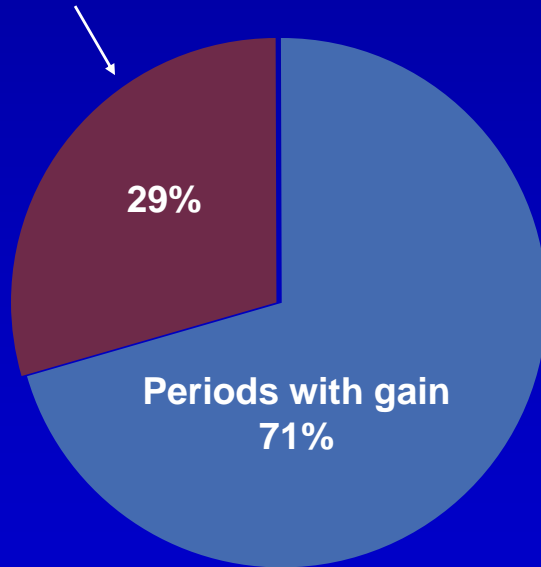




Risk of stock market loss over time

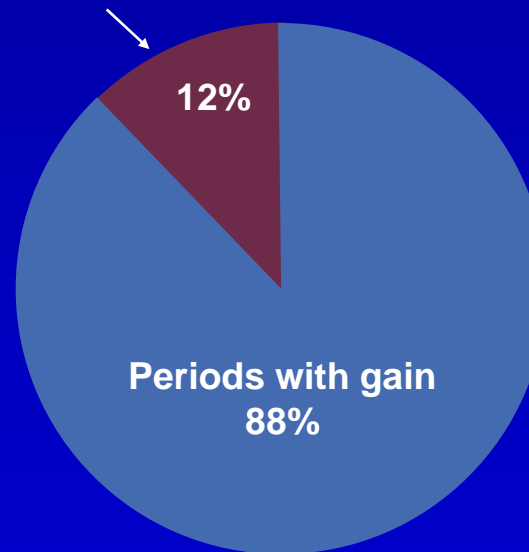
1926–2003

Periods with loss



78 one-year periods

Periods with loss



74 five-year periods

Periods with gain
100%

64 fifteen-year periods



The Stock Market (1973 to 2003)*

Market is Up 68%

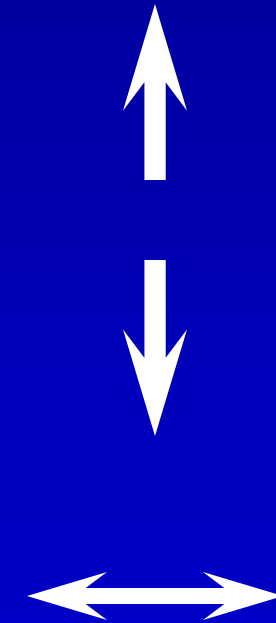
(21 out of 31 years)

Market is down 26%

(8 out of 31 years)

Market is Even 6%

(2 out of 31 years)



* As measured by the S&P 500

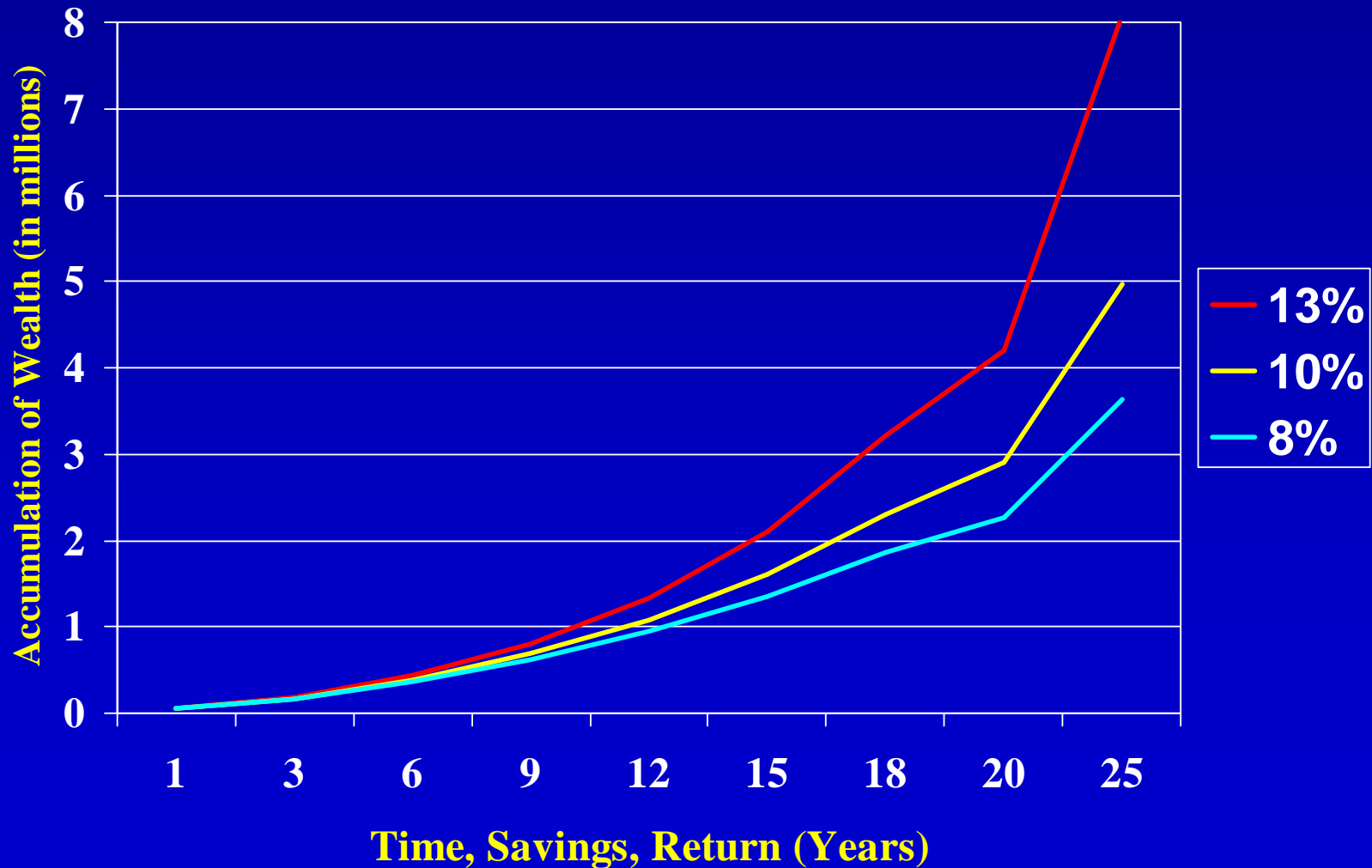


Developing Your Retirement Investment Strategy

- Invest Now - Start Early and Enjoy the Power of Compounding
- Invest Enough - Save Regularly and Watch Your Investments Grow



Wealth Accumulation \$46,000/year at different growth rates





What benefits are available to you
from your employer?



What are my benefits and should I take advantage of them?

● 401(k)

- Up to 20% of income (Max \$13,000)
- 50% match up to 6% of eligible earnings
 - Example $\$25,000 \times 6\% = \$1,500$; Company matches \$.50 for each dollar = \$750.

● In addition to the pay raise, you decrease your Federal Taxable Income by the amount you contribute.



What will this cost me?

$\$25,000 \times 6\% = \$1,500$ Paycheck \$58

Less tax	<u>(300)</u>	<u>(12)</u>
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Out of Pocket	\$1,200	\$46
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Benefits

$\$25,000 \times 6\% =$ $\$1,500$

Match 750

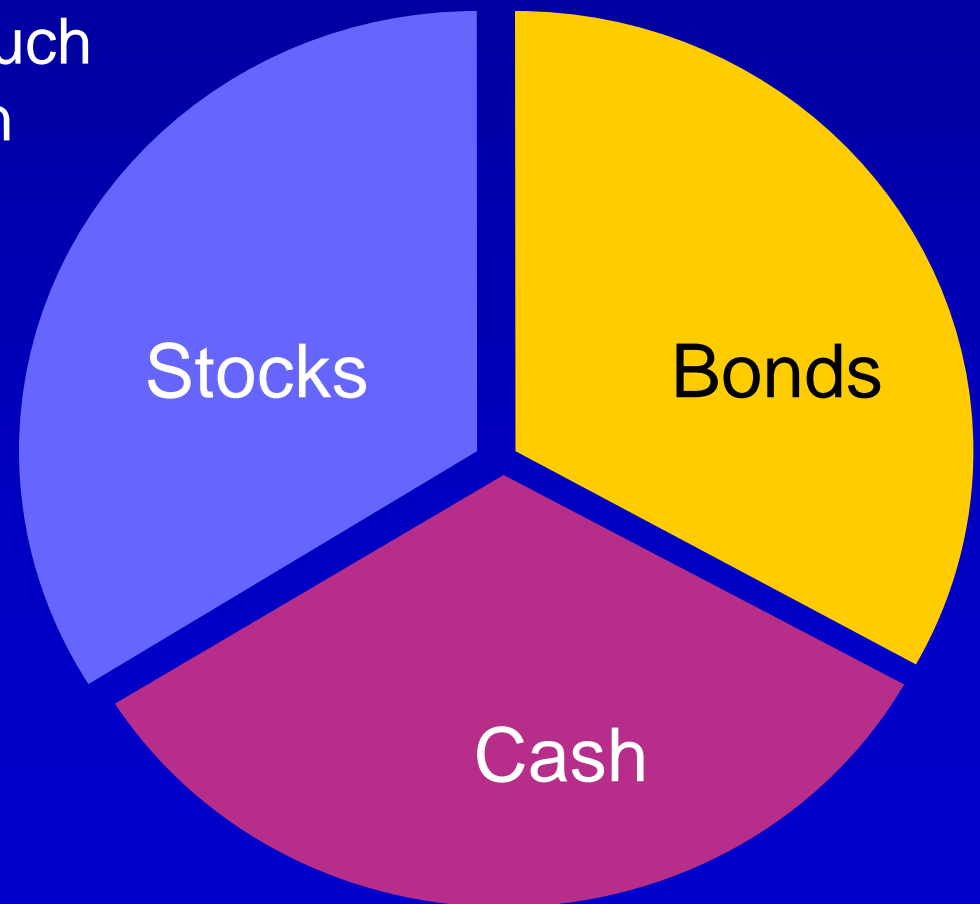
Total Contribution $\$2,250$

Out of Pocket Cost $\$1,200$ or $\$46$ a paycheck



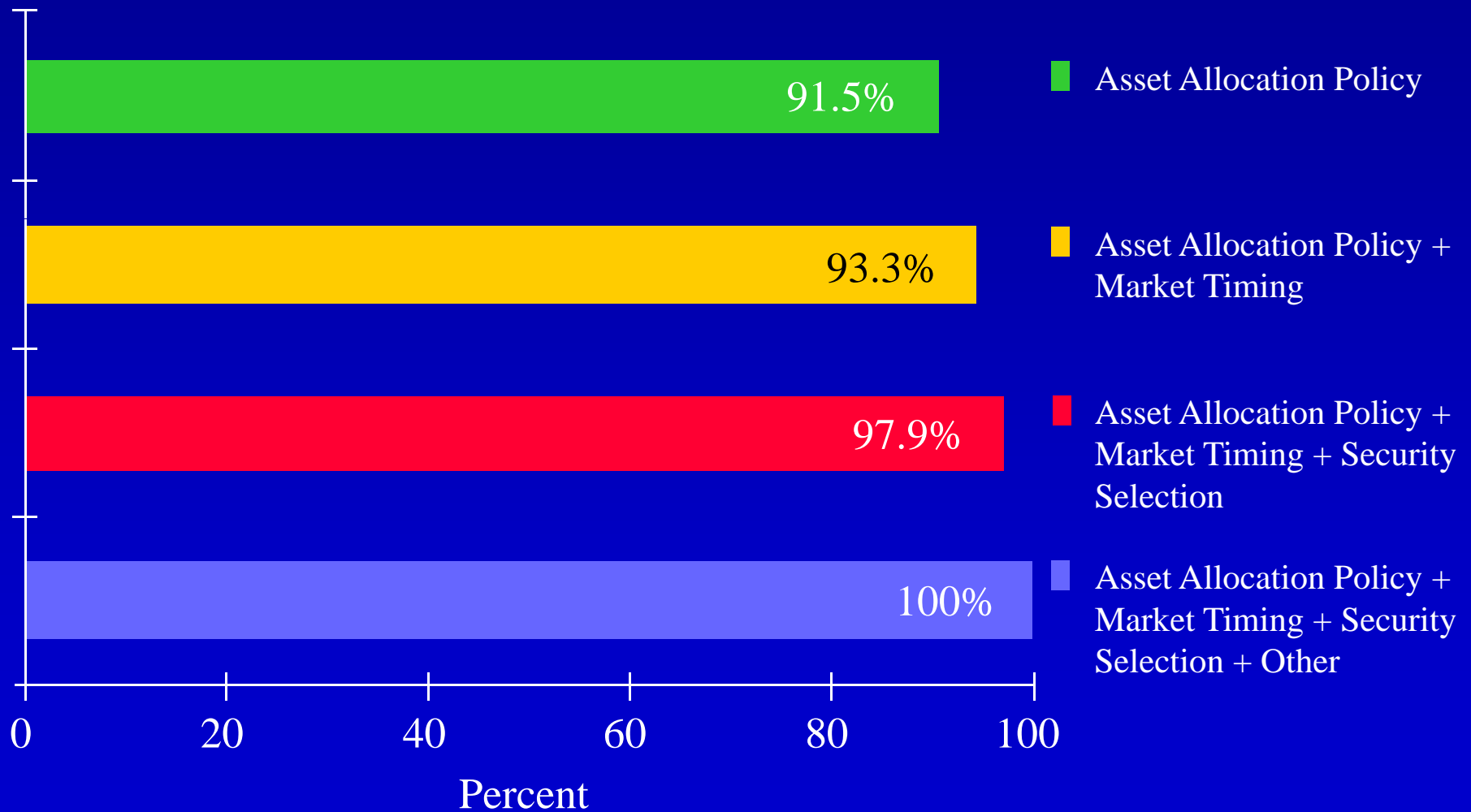
What Is Asset Allocation?

Asset allocation is the process of combining asset classes such as stocks, bonds, and cash in a portfolio in order to meet your goals.



Why Is Asset Allocation Important?

Contributing Factors of Portfolio Performance

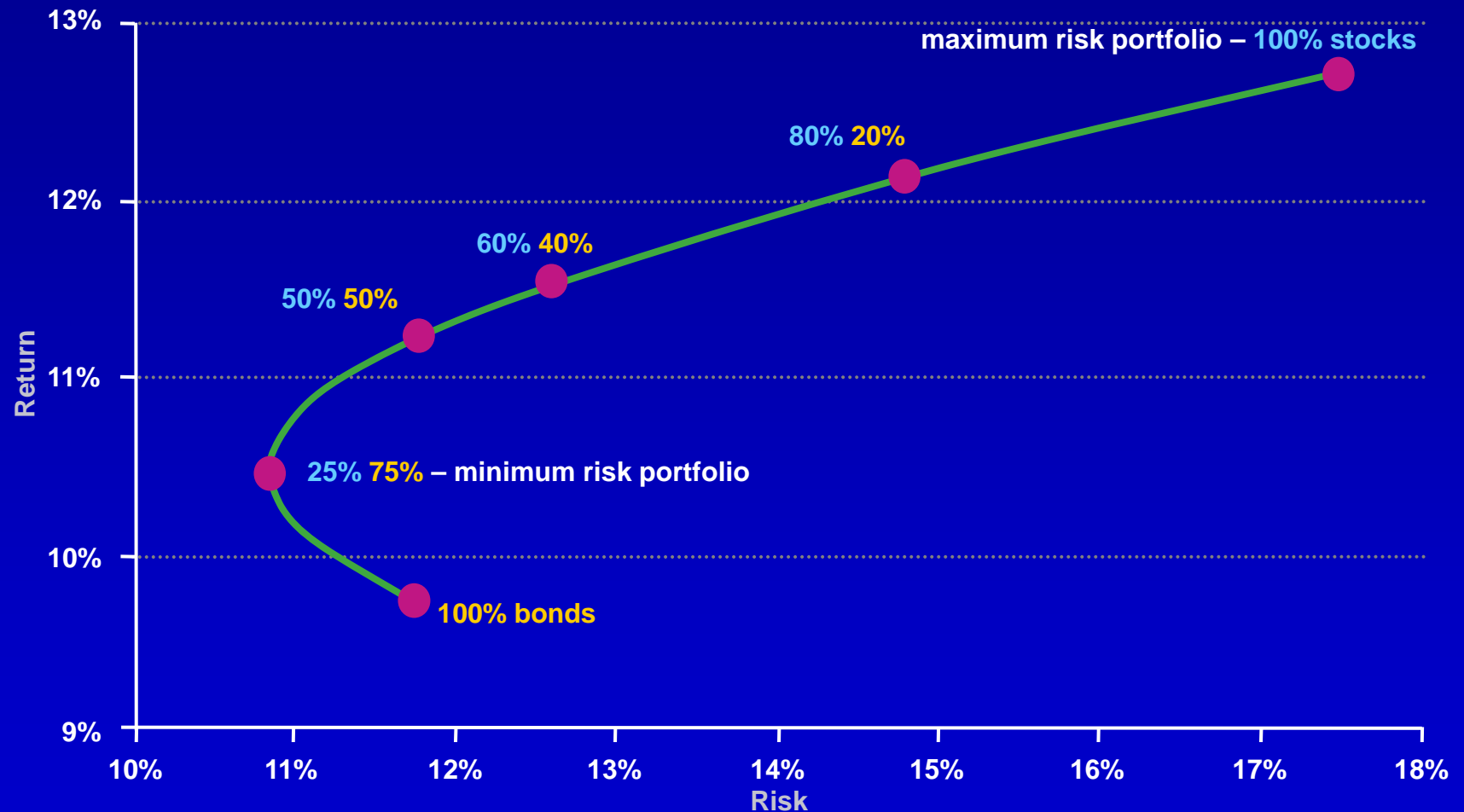


Source: Ibbotson

Stocks and bonds: risk versus return

Adding some equities to the asset allocation actually **REDUCES** the risk!

1970–2003

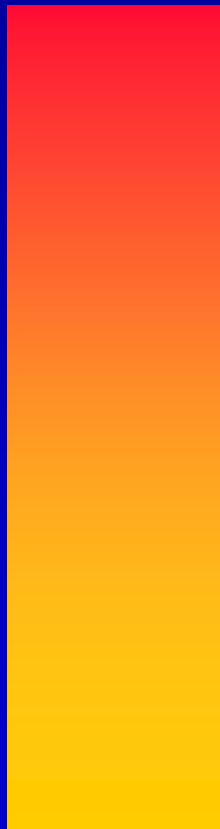


Risk is measured by standard deviation. Return is measured by arithmetic mean. Risk and return are based on annual data over the period 1970–2003. Portfolios presented are based on modern portfolio theory.



Risk Tolerance Spectrum

High Risk



Low Risk

Small Company Stocks

International Stocks

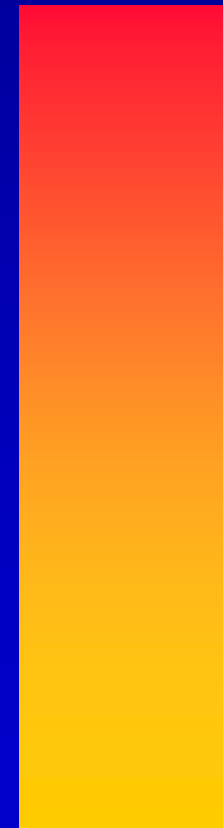
Large Company Stocks

Corporate Bonds

Government Bonds

Cash Equivalents

High Return



Low Return

Source: Ibbotson



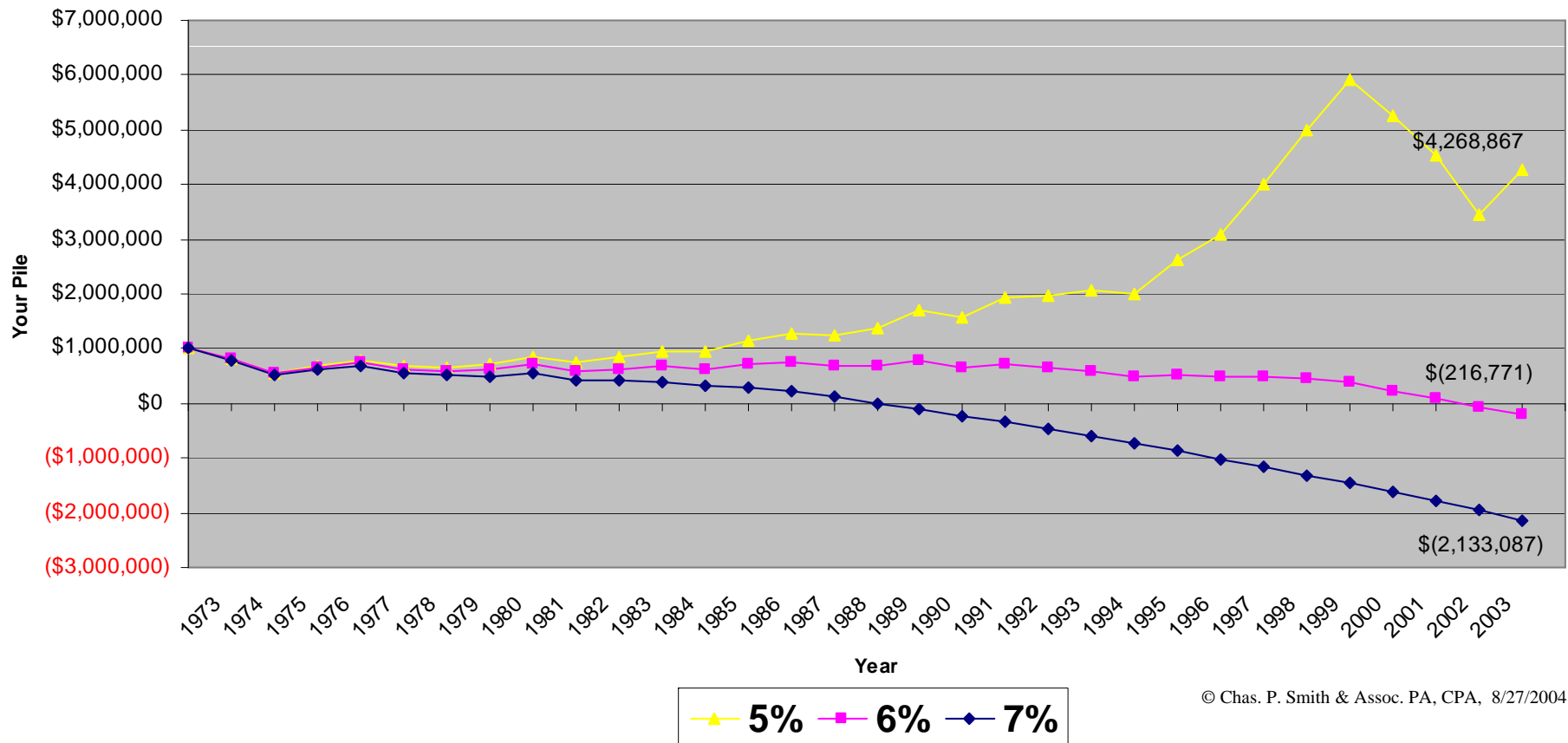
Annual Returns

LOW

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
SMALL GROWTH STOCKS	51.18%	29.15%	FOREIGN STOCKS 32.57%	FOREIGN STOCKS 7.78%	LARGE GROWTH STOCKS 38.13%	LARGE GROWTH STOCKS 23.97%	LARGE GROWTH STOCKS 36.52%	LARGE GROWTH STOCKS 42.16%	SMALL GROWTH STOCKS 43.09%	SMALL VALUE STOCKS 22.83%
SMALL STOCKS	46.05%	18.42%	SMALL VALUE STOCKS 23.86%	LARGE GROWTH STOCKS 3.14%	LARGE STOCKS 37.58%	LARGE STOCKS 22.96%	LARGE STOCKS 33.36%	LARGE STOCKS 28.58%	LARGE GROWTH STOCKS 28.25%	BONDS 11.63%
SMALL VALUE STOCKS	41.70%	LARGE VALUE STOCKS 10.52%	SMALL STOCKS 18.89%	LARGE STOCKS 1.32%	LARGE VALUE STOCKS 36.99%	LARGE VALUE STOCKS 22.00%	SMALL VALUE STOCKS 31.78%	FOREIGN STOCKS 20.00%	FOREIGN STOCKS 26.96%	LARGE VALUE STOCKS 6.08%
LARGE GROWTH STOCKS	38.37%	SMALL GROWTH STOCKS 7.77%	LARGE VALUE STOCKS 18.61%	LARGE VALUE STOCKS -0.64%	SMALL GROWTH STOCKS 31.04%	SMALL VALUE STOCKS 21.37%	LARGE VALUE STOCKS 29.98%	LARGE VALUE STOCKS 14.69%	SMALL STOCKS 21.26%	SMALL STOCKS -3.02%
LARGE STOCKS	30.47%	LARGE STOCKS 7.62%	SMALL GROWTH STOCKS 13.37%	SMALL VALUE STOCKS -1.55%	SMALL STOCKS 28.44%	SMALL STOCKS 16.53%	SMALL STOCKS 22.36%	BONDS 8.70%	LARGE STOCKS 21.04%	LARGE STOCKS -9.11%
LARGE VALUE STOCKS	22.56%	BONDS 7.40%	LARGE STOCKS 10.08%	SMALL STOCKS -1.81%	SMALL VALUE STOCKS 25.75%	SMALL GROWTH STOCKS 11.32%	SMALL GROWTH STOCKS 12.93%	SMALL GROWTH STOCKS 1.23%	LARGE VALUE STOCKS 12.72%	FOREIGN STOCKS -13.96%
BONDS	16.00%	LARGE GROWTH STOCKS 5.06%	BONDS 9.75%	SMALL GROWTH STOCKS -2.44%	BONDS 18.46%	FOREIGN STOCKS 6.05%	BONDS 9.64%	SMALL STOCKS -2.55%	BONDS -0.82%	LARGE GROWTH STOCKS -22.08%
FOREIGN STOCKS	12.14%	FOREIGN STOCKS -12.18%	LARGE GROWTH STOCKS 1.68%	BONDS -2.92%	FOREIGN STOCKS 11.21%	BONDS 3.64%	FOREIGN STOCKS 1.78%	SMALL VALUE STOCKS -6.46%	SMALL VALUE STOCKS -1.48%	SMALL GROWTH STOCKS -22.43%



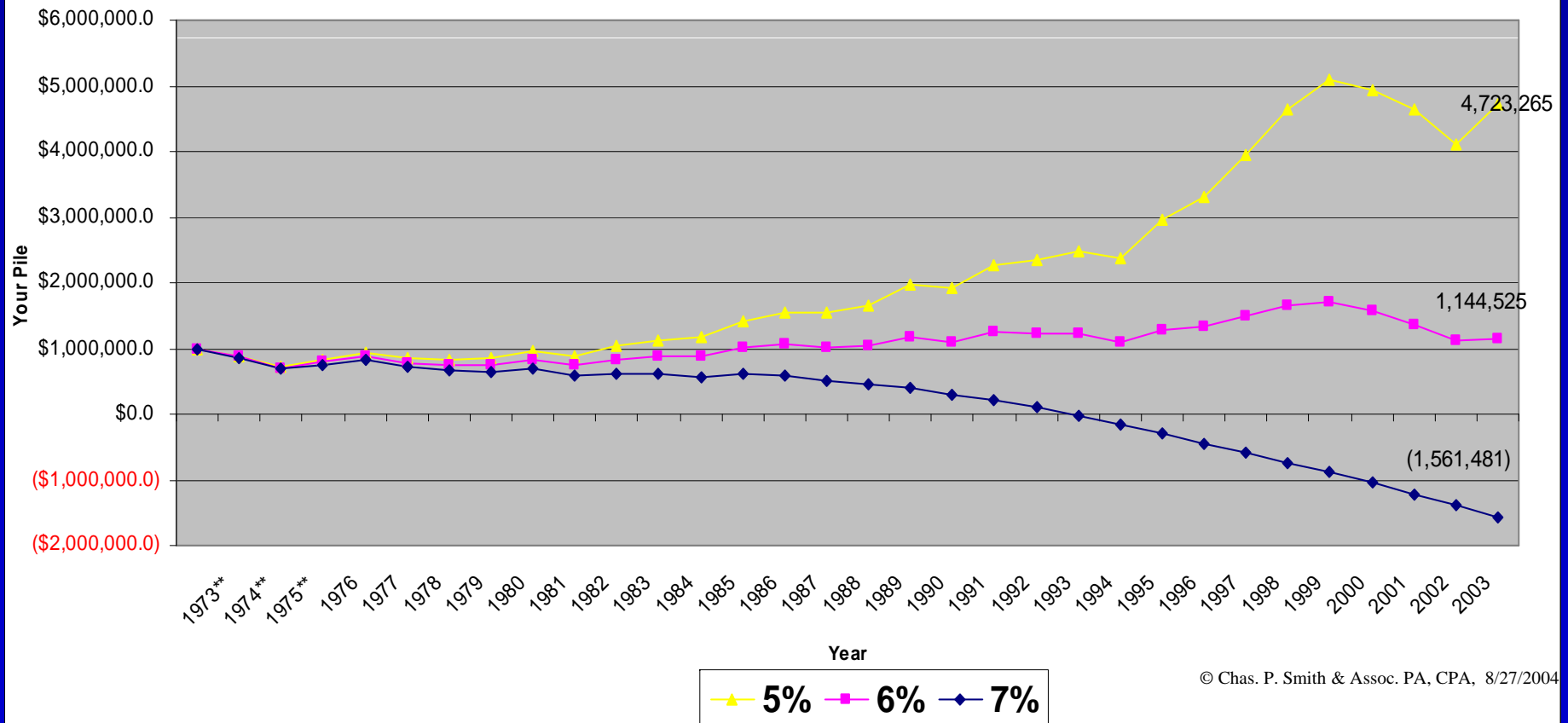
How Big Does Your Pile Need To Be? Withdrawal Rates - 5%, 6%, and 7% 100% Equities - S&P 500 1973-2003





How Big Does Your Pile Need To Be? Withdrawal Rates - 5%, 6%, and 7% 60% Equities / 40% Fixed Income

S&P 500 1973-2003; US Intermediate 1973-1975, LB Bond Agg 1976-2003



How Much Do I Need?

Spending \$35,000 per year

$\$35,000 / .05 = \$700,000$ in today's Dollars



Conclusion

- Save Money in your retirement plan
- Save early and often and enjoy compounding
- Determine your risk tolerance and asset allocation
- Take control of your future





401k Pilot

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401(k) Investments

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