

Your Financial Health

A Presentation to AMA Alliance Leadership Development Conference

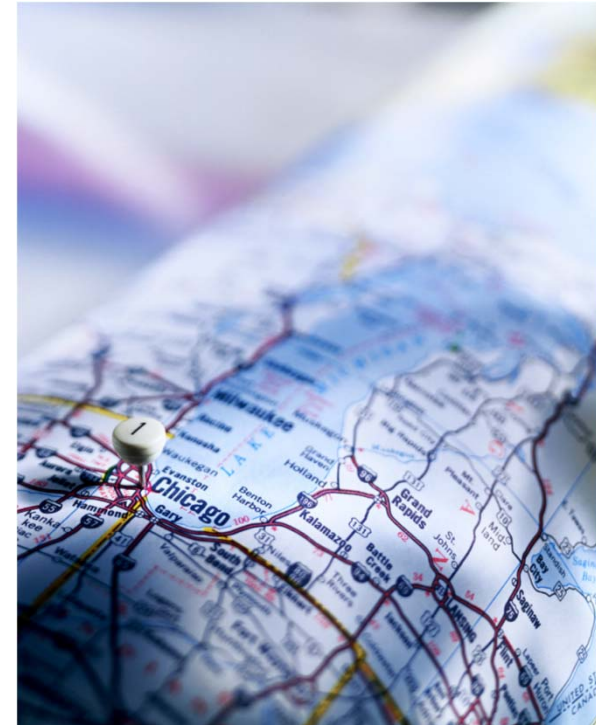
Presented by William H. Keffer, CFP®
NAPFA-Registered Financial Advisor



Overview

- Introductions
- Financial Health & AMAA's Mission
- Consequences of Financial Stress
- Importance of Planning
- Manage Cash Flow: Budgets
- Manage Your Balance Sheet
- Plan for Future Needs
- Saving & Debt Elimination
- Tax Considerations
- Financial Planning, Not Product Sales
- Summary

Will cover topics on parallel tracks:
Families & Medical Practices



Today's Presenter



Bill Keffer, CFP®

NAPFA-Registered Financial Advisor

Bill Keffer is an hourly, fee-only financial planner and registered investment advisor with offices in Chicago and Wheaton, Illinois. The focus of his work is helping families, professionals and business owners – people from all walks of life regardless of income or net worth - identify, prioritize, quantify and address their most important financial concerns through comprehensive financial planning on an hourly fee-for-service basis, without selling investment or insurance products or asset-based fees.

Professional Experience

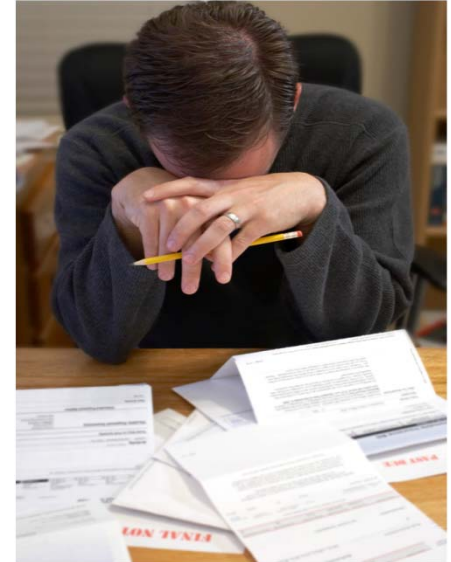
- Principal- Keffer Financial Planning (5 years)
- Senior Vice President- USLIFE/AIG American General (26 years)
- Vice President- North American Company for Life and Health (2 years)
- Financial Advisor- Citigroup Smith Barney (2 years)

Education:

- Dickinson College, Carlisle, PA- Bachelor of Arts, English
- St. Joseph's University, Philadelphia- Masters in Business Administration, Finance

Financial Stress as Health Risk

- Unemployment up- 9.1%
- Family incomes down
- Foreclosures all-time high
- Financial stress tied to dietary & substance abuse
- High income & net worth do not immunize
- Problem: Loss of Control



Importance of Financial Planning

For both medical practices & families,

- Good health seldom just happens
- Requires education & a plan of action
- Financial health is the same
- A carefully-researched & developed plan for financial well-being does not guarantee success...
- ...BUT IT GREATLY INCREASES THE ODDS

Elements of Successful Financial Plans for Medical Practices & Families

- Cash Flow: Budget/Income Statement
- Assets & Liabilities: Net Worth/Balance Sheet
- Plan for Future Contingencies
- Savings & Debt Service Plans
- Taxes & Other Cost Considerations
- Investing for the Future
- Focus on Financial Planning
- Tune Out Product Sales Hype

Planning for Cash Flow

Budgets (Families)

- Income
 - Employment income
 - Investment income
- Expenses
 - Housing related
 - Cars/transportation
 - Child & family
 - Personal
 - Healthcare
 - Other
- Net Cash Flow

Income Statement (Practice)

- Revenues
 - Services
 - Other
- Expenses
 - Salaries
 - Rent
 - Advertising
 - Utilities
 - Office supplies
 - Insurance
- Net Income



Cash Flow Management

- Crucial to align expenses with income
- Anticipate shortfalls; plan to underspend
- Carve out targeted savings/reserves first
- Earmark for enjoyment as well as needs

Tracking Assets & Liabilities

Net Worth (Families)

- Assets
 - Cash & investments
 - Real estate
 - Personal property
- Liabilities
 - Mortgages
 - Student loans
 - Consumer loans
 - Credit cards/revolving
- Net Worth

Balance Sheet (Practice)

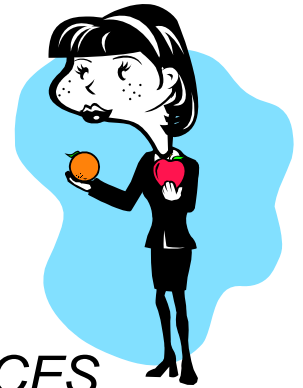
- Assets
 - Cash
 - Receivables
 - Supplies
 - Equipment
- Liabilities
 - Accounts payable
 - Notes payable
 - Salaries payable
- Owners' Equity

Know Your Ratios

- For families
 - Savings as % of income: at least 15%
 - Debt service to income: Ideally <30%
 - Effective & marginal tax rates
- For practices
 - Liquidity ratios
 - Profitability ratios
 - Solvency ratios

More on Key Financial Ratios for Businesses

- Liquidity Ratios
 - Current ratio= current assets / current liabilities
 - Working capital= current assets – current liabilities
- Profitability Ratios
 - Profit margin= net income / net sales
 - Return on assets= net income / total assets
 - Return on equity= net income / owners' equity
- Solvency Ratios
 - Debt-to-assets= total debt / total assets



BENCHMARK YOUR RESULTS AGAINST SIMILAR PRACTICES

Set Goals; Plan for Future Contingencies

Personal Financial Goals

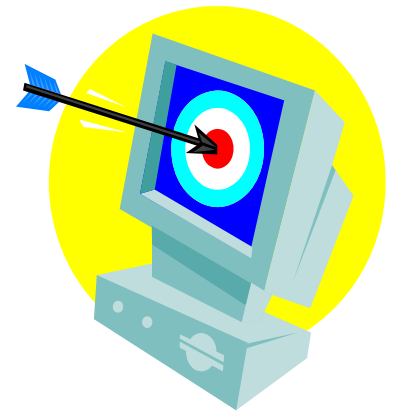
- Amounts & target dates
 - Secure retirement
 - College for children
 - Future healthcare costs
 - Car replacements-no debt
 - Pay off loans
 - Build wealth
- Know how much saving will be needed for each
- Plan when & how to save

Goals for the Practice

- 3-5 Year financial goals
 - Revenue by source
 - Expenses
 - Net income
- Marketing goals
 - Services/products
 - Fees/pricing
 - Advertising/promotion
 - Place/distribution
- Operational goals

Saving & Debt Service Planning

- Impossible (for most) to save for all goals simultaneously
- Especially when encumbered w/debt
- Critical to calculate when/how near-term goals will be finished
- Shift available resources from Goal A to Goals B & C as you progress
- You cannot hit a target that you cannot see



Sample Saving & Debt Service Worksheet

Proposed Savings Plan		Current		2010-2013		2014-2022		2023-2032		2033-2044	
Account	\$s per Year	% of Income (JD only)	\$s per Year	% of Income (JD only)	\$s per Year	% of Income	\$s per Year	% of Income	\$s per Year	% of Income	
401(k)#1	\$ 16,500	10.31%	\$ 16,500	10.31%	\$ 16,500	10.31%	\$ 16,500	10.31%	\$ 16,500	10.31%	
401(k)#2		0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	
Roth IRA#1	\$ 5,000	3.13%	\$ 5,000	3.13%	\$ 5,000	3.13%	\$ 5,000	3.13%	\$ 5,000	3.13%	
Roth IRA#2	\$ 5,000	3.13%	\$ 5,000	3.13%	\$ 5,000	3.13%	\$ 5,000	3.13%	\$ 5,000	3.13%	
New home	\$ 20,000	12.50%	\$ 16,000	10.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	
Car replacement fund		0.00%	\$ 4,000	2.50%	\$ 4,000	2.50%	\$ 4,000	2.50%	\$ 4,000	2.50%	
College savings	\$ 10,000	6.25%	\$ 10,000	6.25%	\$ 10,000	6.25%	\$ 10,000	6.25%		0.00%	
Wealth building		0.00%	\$ -	0.00%	\$ 12,000	7.50%	\$ 12,000	7.50%	\$ 25,000	15.63%	
Total savings	\$ 56,500	35.31%	\$ 56,500	35.31%	\$ 52,500	32.81%	\$ 52,500	32.81%	\$ 55,500	34.69%	
Debt Service											
		Current		2010-2013		2014-2022		2023-2032		2033-2044	
Account	\$s per Year	% of Income (JD only)	\$s per Year	% of Income (JD only)	\$s per Year	% of Income	\$s per Year	% of Income	\$s per Year	% of Income	
Mortgage	\$ 20,508	12.82%	\$ 20,508	12.82%	\$ 30,144	18.84%	\$ 30,144	18.84%	\$ 30,144	18.84%	
Car loan	\$ 5,483	3.43%	\$ 5,483	3.43%		0.00%		0.00%		0.00%	
Student loan	\$ 2,868	1.79%	\$ 2,868	1.79%	\$ 2,868	1.79%	\$ 2,868	1.79%		0.00%	
		0.00%		0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	
Total debt service	\$ 28,859	18.04%	\$ 28,859	18.04%	\$ 33,012	20.63%	\$ 33,012	20.63%	\$ 30,144	18.84%	
IN THIS PERIOD>>>>>			Focus on new house				Focus on college		Focus on retirement		
Total savings & debt service	\$ 85,359	53.35%	\$ 85,359	53.35%	\$ 85,512	53.45%	\$ 85,512	53.45%	\$ 85,644	53.53%	

Taxes & Other Cost Considerations

For Families & Individuals

- Take advantage of every legitimate tax reduction strategy

For Medical Practices

- Form of business organization impact on tax status

Tax Strategies for Individuals & Families

- Use every legitimate deduction
- Make pre-tax retirement plan deposits
- Leverage Roth accounts if available
- Weigh Roth IRA conversion
- Consider after-tax IRA contributions
- Locate bonds in tax-sheltered accounts
- Hold stocks in taxable accounts
- Concentrate foreign funds in taxable accounts
- Use municipal bonds in taxable accounts
- Watch dividend distributions when buying mutual funds
- Consider Exchange Traded Funds' tax advantages
- Time receipt of income, as feasible, to avoid bracket jump
- Explore "tax loss harvesting" when buying & selling
- Donate highly-appreciated securities, rather than cash



Forms of Business Organization: Tax Status

	Sole Proprietorship	Partnership	Regular C Corporation	S Corporation	Limited Liability Company
Taxation of Income	Directly to owner	Directly to partners in proportions agreed upon by partners	Taxed at corporate level & again at shareholder level when distributed, usually as dividends	Taxed directly to shareholders like partnership (no double taxation)	Generally taxed as a partnership (though classification may result in corporate taxation)

Forms of Business Organization: Pros & Cons

	Sole Proprietorship	Partnership	Regular C Corporation	S Corporation	Limited Liability Company
Major Advantage(s)	Independence, flexibility, minimum red tape	Chance of business success enhanced with right combination of partners	Limited liability; potential tax benefits, ease of interest transferability	Limited liability; lower self-employment tax, ease of interest transferability	Limited liability; lower self-employment tax, ease of interest transferability
Major Drawback(s)	Unlimited liability a problem if business has financial difficulties	Unlimited liability (except for limited partners); frequent changes in partners can be difficult	Greater cost, government regulations & red tape; double taxation of income	Not every corporation qualifies for S status; more limits on fringe benefits, other limitations, see details in 10.3 above	Inconsistent state tax treatment

Investing for the Future

Elements of Successful Investing:

- Adequacy of savings- regular recurring additions
- Asset allocation- appropriate mix of asset classes
- Risk management through broad diversification
- Tax leverage- optimal use of tax-sheltered accounts
- Investment vehicles- individual securities versus mutual funds, annuities, exchange traded funds, etc.
- Investment management style- passive versus active management
- Investment firm choice- costs, options, & access
- Criteria for investment selection- “fit” in allocation, costs, manager tenure, turnover, style purity, risk versus peers
- Don't try to time markets- slow & steady wins



Focus on Financial Planning, Not Products

- Elements of financial planning process:
 - Identify financial goals & objectives
 - Take stock of income & expenses, assets & liabilities
 - Know how much needs to be saved to reach goals
 - Formulate a savings & debt reduction plan you can live with
 - Identify appropriate savings vehicles
 - Find optimal asset allocations
 - Choose among available options
 - Revisit your Plan & progress at scheduled intervals
 - Do not allow product “features & benefits” to drive the process
- Find a fee-only planner if you need help
 - Fundamentally different from commissioned sales person
 - Compensation structure allows focus to remain where it should: on the key drivers of your financial success



Let's take your questions...



About This Presentation

Your Financial Health

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