



# How to Prioritize Wealth Management With the Financial Planning Pyramid

While it's relatively easy to earn an income, effectively prioritizing your cash flow isn't clear to many people because school doesn't provide us with a personal financial education and many people don't hold themselves accountable to a budget.

Even if you've read some financial books or researched tactics on the internet, all of the content is disjointed and you've been left to piece it together yourself. It's also probable that your literature hasn't covered how to apply and combine the underlying laws which enable the financial strategies.

Thus my purpose in writing this article as a Certified Financial Planner® professional, who's also an Enrolled Agent and Certified Tax Coach™, is to provide you with a strategic framework to help you determine which aspects of your financial life you may need help to prioritize.

[Financial Planning Pyramid Graphic]

## **Protection (Risk Management)**

"The fear of death follows from the fear of life.  
A man who lives fully is prepared to die at any time."  
Mark Twain

Buildings rise upon a strong foundation in order to support the framework for desirable living or working quarters. Your new build isn't meant to look pretty from the start but the cost is necessary to achieve your end result otherwise you may find yourself lying broke in a pile of waste.

## **Emergency Savings**

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Unforeseen circumstances occur. Quite frequently, actually. And if you don't have cash in the bank to cover the cost, you're going to accumulate debt.

But not everyone is afforded the ability to pay for their housing or other costs on a credit card. Even if you could, you shouldn't--high interest rate debt typically causes your net worth to deteriorate and you really shouldn't risk your home equity. Debt management can be a tricky issue which causes a high amount of stress.

You're probably familiar with the phrase that "there are only two certainties in life--death and taxes." This is too true. This also means that we experience a tremendous amount of uncertainties in life.

You might be an excellent electrician, but if your boss isn't good at estimating job costs, managing the budget, screwing screws, or a whole slew of other business functions, then you can still find yourself out of work in spite of your skill.

It's also possible that you're accidentally injured on the job--I've seen a wall mounted TV drop on a coworker's arm without them touching it--which significantly reduces your income on a worker's compensation claim.

Maybe you're familiar with the fallout of the housing industry in 2007? I can probably safely bet that it wasn't your fault. And it would've hurt to sell your stocks after a 50% decrease in order to pay for your living expenses not covered by unemployment insurance.

Or maybe you caught the 2020 Coronavirus, wound up hospitalized on a respirator, and hit the \$14,700 out of pocket maximum on your family's ACA health insurance plan.

Who knows what could happen and how much it'll cost? One of the fundamental principles of financial planning is to hope for the best, but plan for the worst. This helps you prepare for and reduce the costs of unforeseen circumstances.

### **Insurance Coverages**

What would've happened if your employer didn't have worker's compensation insurance? Most small businesses can't afford to pay employee salaries if they're not supporting the business. And not every large business is even profitable. Look at what

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happened to Enron, Lehman Brothers, Toys R Us, etc. Thankfully, unemployment insurance helps make up for some of the difference.

But what if your house burned down and you didn't have homeowner's insurance? How would a \$300k loss affect your long-term plans?

What if that handsome CEO seated at the bar conceitedly extended his pinky finger and expensed one too many martinis at lunch, T-boned your car, and disabled you for a year? Could you still pay for your housing and other lifestyle expenses then?

What if you were diagnosed with prostate cancer? Could you afford a cool \$1 million for treatments in order to survive? Or would you have to file for bankruptcy? Did you know that medical debt is by far the #1 cause of bankruptcy?

Thankfully, paying insurance premiums enables us to offload most of the financial risk to an insurance company so we're not randomly forced to experience financial destitution.

### **Executed Will**

Every state has "intestate succession" laws which govern the distribution of your assets upon death by operation of law through probate court if you haven't executed a Will. These laws have traditionally followed bloodlines. This estate distribution method commonly causes problems as it exposes your estate to family infighting, legal disputes, mismanagement of assets, and excessive costs while your wishes and the special needs of your heirs are ignored.

If you do have a Will, but you haven't regularly reviewed and updated it, how would your family react if your former spouse inherited your 2015 Mazda Miata and a lump sum of cash? Or if your eldest child with a PhD who earns multiple six figures per year wound up with a speed boat while your current spouse and youngest child in grade school received nothing? Is that what you want? Because it's probably not what they want. Except maybe your ex. Although that Mazda was questionable.

Contrary to popular belief, attorneys aren't infallible and omniscient. Rudy Giuliani ended up in Borat 2, after all. Strategic opportunities are periodically missed and sometimes provisions are written in such a manner that they fail to follow legal guidelines which invalidates them or causes adverse outcomes.

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For example, my mother's Will included trust provisions for my daughter, but it was written in a manner that violated the "rule against perpetuities." That invalidated the trust, which nullified the purpose for which the Will was drafted. So it needs to be periodically reviewed to ensure that it has met and continues to meet your objectives.

## Growing Wealth

"Rule #1: Don't lose money. Rule #2: See rule #1."  
Warren Buffett

Once you've laid the foundation and built the framework, you can then install the guts and start to make it look pretty.

### Investment Planning

Investing is when money tends to start becoming fun for people. This is also when it gets really complex. Insurance is relatively commoditized, although you should still seek expert advice preferably from a CFP® professional, but there are so many different investment strategies to choose from. Most people have strong opinions because investing is generally an emotional topic, but certain strategies are clearly better than others. How do you know where to begin?

A proper goal analysis can set you on the right path.

### Retirement Planning

Everyone will need to retire at some point, whether that's by choice or by force. Keep in mind that many people plan to retire later than they actually do. For example, [the Coronavirus pandemic has caused many millions to retire early](#) because of layoffs or health issues which can [derail their anticipated retirement lifestyle](#).

And if not because of the Coronavirus, many people retire early because of other health reasons and it may not even be because of their own personal health issue; they may be forced into a caretaker role for a family member. This issue circles back to one of the fundamental principles of financial planning--to hope for the best but plan for the worst. Because contingency plans could have left you better off.

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OK. So we know we need to plan for retirement. But again, how do you know where to begin? Well, once you're properly insured, your savings is protected, and your high interest debt is paid off, then the answer is still that it depends.

Almost everyone is eligible to claim Social Security Income when they retire, but it generally does not pay enough to provide for your retirement lifestyle expenses. If you review your Social Security Benefit Statement, which you can download from [ssa.gov](https://ssa.gov), it explicitly states that your Social Security Income is meant to replace about 40% of your pre-retirement earnings. Which means it's your responsibility to account for the deficit. How do you accomplish this feat?

Free money is the best money, so if you work for an employer who offers matching contributions, that's typically the best way to start. But then you've got a bunch of other decisions to make--should you contribute to the Roth or Traditional 401(k) account? Should you contribute more than what's required to maximize your employer's matching contributions? How much can you afford to contribute? How much do you need to contribute? Which Mutual Funds or ETFs should you select? Should you invest in both bonds and stocks? What's the right mix? What about an IRA? Are there better investment options than the 401(k) or IRA? What about your other financial goals?

The "asset allocation" you ultimately invest in depends upon your desired retirement lifestyle, time horizon and risk tolerance, the risk to reward, tax consequences, and many other factors.

### **Education Planning**

Most parents desire to support their children through college at least in a limited manner. The financial support I had received helped tremendously and I'm forever grateful for that. I only had to buy books and supplies for my AAS Accounting degree. I was able to complete my BS Business degree with \$18,750 in student loans.

I started repaying my student loans in 2014 and they're down to \$7.2k now in 2020. Many students aren't so fortunate; the average debt at graduation for Bachelor's degree recipients who needed financing is approximately \$30k.

Most of us will be subject to financial constraints which require us to budget our cash flow to fund our child's education. Directing cash flow towards this endeavor may



require you to reduce contributions towards your retirement, which forces you to make some difficult decisions.

The main question you'll need to answer is, can you afford to reduce contributions towards your retirement? Because funding your retirement is non-negotiable; most people can't survive on Social Security Benefits alone.

You'll then have to give consideration to the cost of public vs. private, in-state vs. out-of-state, on-campus vs. off-campus, Associate's, Bachelor's, and Graduate, etc.

Once you've got an idea in mind on what college(s) you'd like your child to attend, and at some point what college(s) they want to attend, then we need to devise a savings and investment strategy which minimizes income taxes, controls your investment risk, and enables you to qualify for maximum financial aid.

Every type of asset is factored into the FAFSA formula differently, which is beyond the scope of this article. Just know that there are a tremendous amount of investment and tax planning strategies available which enable us to take advantage of the FAFSA formula to reduce your (EFC) Expected Family Contribution.

## **Wealth Distribution**

**"Begin with the end in mind."  
Franklin Covey**

Aside from tax planning for business owners, your retirement income distribution plan tends to be the most complex component of financial planning because your portfolio's order of depletion can drastically affect your ability to sustain or improve your retirement lifestyle and maximize the value of your estate for the benefit of your heirs and/or charitable organizations.

This is why tax-efficient asset allocation is of utmost importance. And once you're in the wealth distribution phase, market timing can produce the most significant impact--you know that buying high and selling low is a losing strategy!

Unfortunately, retirement income distribution plans are quite often overlooked by financial planners while you're accumulating assets which is to your detriment because

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while you may accumulate assets faster, if you aren't invested in the most effective vehicles for withdrawals, your assets will deplete much faster than they could have which leaves you with even less money in the end. This means that your returns which look bigger on paper now will net much less in the end relative to your alternatives.

It's frequently better to make short-term sacrifices, like paying taxes now, which enables you to end up with more retirement income later in life. But you need to have accumulated the financial planning, insurance, investment, and tax law knowledge and you need to use financial and tax planning software to run projections in order to make the best strategic decisions.

Some of the factors to be considered are your retirement age, lifestyle, and health, as well as your life expectancy, which can all be scientifically quantified by a professional.

In conclusion, you can do it yourself. In fact, most people do. Please feel free to use this article on the Financial Planning Pyramid to help you get started and guide you along that path. However, we all have our own unique vocation for good reason. I'm not about to spend my time deepening my knowledge of physics to the point of understanding quantum mechanics because it's not worth my time at this point.

Instead, I've chosen to spend my time building my career by deepening my knowledge of insurance, investments, finance, and taxation in order to help others maximize their financial outcomes to achieve their goals, objectives, and dreams.