LOW HANGING FRUIT ONTHE FINANCIAL PLANNING TREE

Suggestion #1: Utilize an Online Savings Account

This is the first one because it is as close to a free lunch as it gets, and it can be done quickly. You can put your brick-and-mortar bank savings into one of these accounts and increase your APR over 1% or more. The extra amount you make will depend on your balances.

I just looked up my former bank money market rates and the top rates available today. It's about 2% more at the online bank. For example, let's say you keep $10,000 in savings at a brick and mortar, you would make an extra $200. Every year.

The holy grail of investing is earning a higher return without more risk. An online bank gives you that because of FDIC insurance.

Let's say you have $100,000. You just made an extra $2,000 each year. The best part, this entire process should take you well under 1 hour from start to finish. That can be quite the hourly rate you just earned.

It is true that moving banks is a major hassle. That's why I'm not telling you to move banks. Keep your checking accounts where they are. You can set up electronic links and automatic transfers so there is really minimal difference.

You can use Google to find a good website that compares rates. There are a couple things to look out for. First, avoid teaser rates. Second, check if there are any minimums. The last thing you want is to get surprised by one of these and have to switch again.

Make this simple change and you'll be well on your way to making more money in your sleep.

Suggestion #2: Your Mortgage

Now that you've bumped up your cash yield by using an online savings account, let's move on to another banking Taking an extra couple hours to find the absolute best rate could save $10k plus. That's not a ton of money over 30 years, but wouldn't you rather have that money than the bank?

Now consider that the difference you saved each month could have been contributed to a 401k or Roth IRA and invested. Even better!

It's important to not just use your current bank/friends/family because it's convenient and you want to avoid what potentially could become an awkward situation. If they have the best rates, great! If not, take the savings you get and buy them an awesome gift instead.

This is where you hit the phones/web browser to find the absolute best rate. Most likely, you'll find the rates pretty much all the same, but you'll also find some that are significantly higher. You want to avoid these for obvious reasons. Hopefully you'll also find some that are lower.

When I bought my house, I used a broker that shopped the market for me. It's probably a good idea to contact a couple (or more) brokers and let them know you are talking to multiple brokers.

Already own a house? Consider a refinance. Depending on your current rate and how long you plan to stay in the house, it could make sense. There are various refinance calculators available on the internet. Try to find one on a website that doesn't do mortgages. topic: your mortgage. We're going to discuss non-mortgage debt a little more later, but the mortgage gets a separate mention because of its sheer size.

There are few decisions more important than how much house you can afford. There are various guidelines out there, but regardless of what amount you choose, the simple fact remains that the higher your mortgage payment, the less you have to spend on other things.

Let's say you are getting a $300k mortgage. Let's further assume you do a 30-year loan and the rate is 4%. That means you'll pay $515,609 over those 30 years. Compare this to a rate of 3.75%, where you end up paying only $500,165 over the life of the loan.

Suggestion #3: Tax Savings

Let's move on to tax considerations. The really large tax saving strategies typically involve business owners and retirement, each of which could fill its own book.

We're going to focus on some smaller, but more common, wins today. The first is the dependent child care credit. This credit is available to households where both parents work (or are looking for work) and they pay qualifying childcare expenses. You can talk to your tax advisor on specifics, but know that preschool counts. You can get this credit as a partial credit even if you use a Dependent Care FSA if you have two or more children under 13.

This brings us to Dependent Care Flexible Spending Accounts. These are accessed through an employer as a benefit. The rules to qualify are the same, but it allows you to get a tax deduction for qualifying expenses.
If you have any philanthropic desires, or know someone over 70.5 year of age, read on. If not, skip to #4.
The 2018 Tax Cuts and Jobs Act drastically reduced the amount of people who itemize their tax deductions.

Qualified Charitable Distributions- This one only works for people over 70.5, but it is hugely beneficial if you are. This allows money to come out of an IRA tax free as long as it goes to a qualifying charity. Distributions from IRAs are usually taxed at ordinary income rates. You do NOT need to itemize to get this benefit.

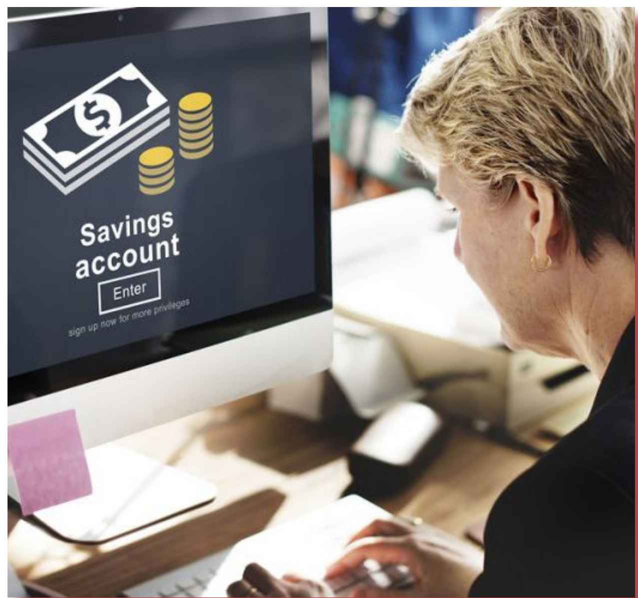
"Bunching" - This strategy may be for you if you would not itemize if you did not give any money to charity. Bunching means you will alternate your giving to every other year, and give twice as much in the years that you do give. The charity you support will get the same amount every 2 years, but you'll be able to increase your deductions over a two year period.

Donor Advised Fund- This can actually be used in conjunction with bunching or standalone. A Donor Advised Fund allows you to get a current year tax deduction and actually give the money to charity later. For example, you put in $20k this year and get $20k of itemized deductions. You give the money to a charity in the future. In the bunching example, the charity still gets $10k each year, but the deduction was in 1 year. A DAF can also be used when doing a Roth conversion or you need to get under a certain AGI threshold, such as avoiding Medicare premium surcharges.

Donate Appreciated Securities- When you sell a security that has appreciated, you will pay capital gains tax on the amount of the gain.

Instead of giving cash to a charity, give them appreciated securities in the same amount and re-buy the security with your cash.

You'll be in the same position you started, but the charity won't pay tax when they sell the security since they are tax-exempt and you'll have a higher basis in the same stock, which will decrease future capital gains tax. Win-Win.



Suggestion #4: Only Buy Insurance You Need

What a hated expense. Nobody likes to pay for insurance, especially because they may never collect on it. Unscrupulous life insurance agents will use this logic to sell you permanent insurance instead of term even if you don't need it.

The first key point to understand is that you insure what you are either unable or unwilling to replace. For example, a young family with kids without a hefty nestegg needs life insurance. They are unable to replace that income for their children if space debris falls on them.

The grandparents of that family are worth $8 million, and nobody is depending on them for income. They do not need life insurance because they are financially independent and either spouse will be fine financially when the other dies.

Those same grandparents insure the second vacation home worth $650k because they are unwilling to replace it if something happens, even though they could. Understanding this can save you money right off the bat because you'll only buy what you need.

Suggestion #5:

Consider Raising Your Deductibles

Now let's take a look at your deductibles. Looking at auto insurance, let's pretend you have $100,000/$300,000/$100,000 with a $250 deductible. That means you have liability coverage of $100k per person and $300,000 per accident. You also have $100,000 for property damage.

Let's further pretend you hit a parked car, so nobody is hurt. The owner of the parked car has $5,000 of damage and you file a claim with your insurance company. You will pay the $250 deductible and your insurance company will pay $4,750.

You will most likely lower your monthly premium by increasing your deductible. It is possible it will only lower your premium by a very small amount, so there wouldn't be much reason in that case to increase your deductible.

You can save a ton of money by re-quoting various insurance policies every so often, especially when something happens that changes your circumstances, like your health or your address changes.

Lastly, make sure you shop the market for each type of insurance. Your circumstances, and the pricing algorithms, can change the price.

Suggestion #6:

Understanding Incentives and Conflicts
Related to this, you should understand the structure of insurance agents. The person you're working with may be captive, meaning they can only sell their own company's products, which means they are not shopping the market for you.

Other companies are independent, which means they could quote multiple companies for you. However, don't assume they are doing that for you out of the goodness of their heart. Their percentage payout in commissions goes up the more they put with a company, so they have an incentive to focus their sales with one or a few companies whether or not it's in your best interest.

On the life insurance side, the agent has a huge incentive to sell you permanent insurance. Their commissions are based on the premium you pay.

The higher premium you pay, the more they make. Permanent life insurance premiums are significantly higher because you will die one day and the insurance company will pay out. Term insurance is cheaper because the insurance company may or may not pay out one day.

Whether you need term insurance or permanent insurance isn't a topic for this email but you should at least know that anybody selling you insurance has a massive incentive to get you to buy a permanent policy.

Suggestion #7: Your Debt Plan

When making a debt plan there are typically two goals that often align with each other, but not always.

Goal #1
The first goal is to pay it off as quickly as possible. There are two schools of thought with this, both of which are acceptable although one is always correct mathematically.

The first is to choose the loan with the highest rate and put any extra payments toward that until it is paid off. Then proceed to the next highest rate, and so on.

This is the mathematically correct way to go about debt repayment because it will reduce the overall interest you pay.

However, you've probably heard of Dave Ramsey and if you have, then you've definitely heard of the Debt Snowball. This is probably the more psychologically satisfying method. You pick the loan with the lowest balance, and put all extra payments towards that one. Then you put what you were paying on that loan and apply it to the next smallest balance.

You can also consider a hybrid method. This involves picking the smallest balance loans first IF you can pay them off immediately or almost immediately. Then, move to the highest rate loan and proceed from there. There isn't really a wrong answer. The key is to pick a plan and stick with it.

Goal #2
The second goal associated with debt is to lower your monthly payment. This is usually the goal when someone is having a hard time with cash flow. There are a few ways to do this, but the important thing to know is that it usually will increase the overall amount you will pay. For example, let's say you refinance a mortgage with 15 years left on it to another 30 year mortgage.

That will lower your monthly payment but you will definitely pay more in total. Speaking of refinancing, this can be extremely powerful. Consolidation is nothing more than refinancing multiple loans into one. Let's use the same example. You have 15 years left on a mortgage and your rate is 5%. You can get a new 15 year mortgage, so the total amount of payments remains the same, at a rate of 3.5%. As long as you were planning to stay in the home long enough to recoup the closing costs, this would lower your total cost.

I had a client who had a mortgage, several different student loans, credit cards, and car loans.
They're total debt payments each month was about $8k, which took up a significant portion of their monthly cash flow.
None of the special student loan rules applied (more on that soon) and they had some equity in their house. Because of that, we were able to do a cash-out refinance mortgage that consolidated all the loans into one mortgage.

The effective interest rate was lowered and their monthly payment was lowered by thousands less than it was.

In their case, a refinance worked significantly better than either of the standard debt repayment options.

Suggestion #8: Student Loans

Student Loans get their own section. All the things we've talked about still apply, but there are some further planning opportunities available.
The first is Public Service Loan Forgiveness, or PSLF. This is a federal program that is only available for federal loans as long as all other criteria are met. The specific qualification most need to hit is 120 payments (10 years) made while working in the public sector for a qualifying institution.

You must know exactly what type of loans you have and whether or not you qualify.

PSLF has come under some scrutiny for denying a lot of claims. The point remains that you have to do some homework to make sure you qualify, and dot your i's and cross your t's along the way.

Assuming you and your loans qualify, PSLF could be a great strategy for you. Typically, an income based repayment (IBR) plan is used in conjunction with this, and the goal is to pay as little as possible for those 10 years. White Coat Investor, a popular blog for doctors, points out that it's not a bad idea to take your monthly savings from using IBR and saving that in an investment account.

That way, you will have a huge chunk of the debt in an account if PSLF falls through for you, and best case you have a nice nest egg for your overall savings. Maybe you're not in the public sector so you do not plan to pursue this. IBR may still work for you. There are several different plans, and you should become an expert on the plans available to you. Start by reading this FAQ page. Much like the refinancing we mentioned earlier, you may pay more overall under IBR because you'll pay for longer, but your monthly cash flow will be much improved.
Now let's move on to people who make a lot and probably don't qualify for IBR, like attorneys, doctors and business owners. Refinancing may be the best option.

This can be used to lower the rate, reducing the total cost of student loans. It is also possible to extend the term of your loan, which means you would be paying more overall to refinance so you need to be clear on what you're trying to accomplish.

Other Considerations for Student Loans

Getting married can completely change your student loan repayment plan if you are on IBR. It is definitely not a reason to not get married but you need to be aware of the ramifications, both good and bad. In rare circumstances, it can make sense to file your tax return as Married Filing Separately. You can talk to your tax advisor about this one.

Having kids can also change the amount you pay each month if you are using IBR. The formula used to determine your monthly payment factors in more than just your income. It factors in the size of your family. The more children you have, the lower the payment. Don't think kids will save you money overall though!

Phantom income is something that will be rare, but can have a negative impact on your student loans. The formula to determine IBR uses your tax return. For some people, they will report income that they don't actually receive. This will be for people who reinvest dividends automatically or own a pass-through entity.

For example, an attorney that is a partner will get a Form K-1 that they will owe taxes on even if they don't actually receive a distribution from the partnership. If this applies to you, you'll not only have to find the money to pay the taxes, but you'll also have higher monthly student loan payments.

Suggestion #9: Investment Fees

Let's talk about investment fees. Investment fees can be broken down into three layers.

The first is the fund costs. This can range from just a few basis points (0.0X %) to well over 1%. Generally speaking, lower cost funds will tend to be more passively managed, meaning they are probably trying to capture a given market's return without trying to outperform it. The more expensive funds are actively managed, which means they are trying to beat their respective benchmark.

Academic studies have all but proven that the math is against you if you try to beat the market. This whole part of the conversation is for a different article. We've also left out the fees that apply to commission-based and fee-based advisors because if you signed up for this letter I assume you already know the benefits of working with a fee-only fiduciary.

The second layer of fees is transaction costs. These are minimal in today's day and age. Also, at most firms, there are more and more commission-free funds that are very good.

The third layer is probably the largest, and it is the advisory fee you may pay. This can be around 0.3% for basic asset allocation advice like you may have heard with robo-advisors. It's more common to pay around 1% on the assets being managed.

Your job is to look at this two ways. The first way is to consider total fees being paid. There are a lot of advisors out there charging 1% and then they think for some reason they can pick actively managed mutual funds that beat the market, increasing your total fees.

The second way is to make sure the value you get is worth your fees. Some advisors just focus on investments. Don't pay these advisors 1%.
Other advisors charge you the 1% and add in some retirement planning. This is usually some sort of monte-carlo analysis that helps determine a good asset allocation. This may be worth 1% to you, and if it is, then you owe it to yourself to find a truly comprehensive planner.

There are lots of comprehensive advisors that charge the same 1% fee and give you investment management, estate planning, insurance reviews, tax advice (and some tax prep), company benefit optimization, asset location, debt strategy, and more.

Provision Financial Planning does all of these things and has a fee schedule that is different than some other advisors. For a $500,000 portfolio, the fee will be 1%. This is probably a little on the low end, but not by much. A $1M portfolio will cost $8,500. This will be less than the vast majority of independent advisors. Our fee tiers down like this because we don't believe a $1M portfolio should cost double that of a $500k portfolio.

The part that is the most different? We believe that you don't have to be wealthy to get good advice, so we offer all of this planning for a flat monthly fee even if you don't have assets yet.

Suggestion #10: Company Benefits

This one is so overlooked because they can only be changed once per year. If you're like most families then you probably end up having to rush a decision because they only give you a certain amount of time.

Plan ahead for the next open enrollment and take advantage of it. Group Life Insurance- Do you purchase additional group life insurance? This one is simple. If you are in good health, you can probably get a better rate by purchasing a private term policy. If you are not in good health, you can probably get a better rate with the group insurance. The reason? There is no medical underwriting with group insurance.

You probably get some amount of life insurance for free, so obviously don't get rid of that.
This one is nice because you can literally compare the two. What would you have to pay if you got a term policy? What are you paying for group life? Go with the cheaper. Never ever cancel coverage until the new coverage is in force.

Health Savings Account (HSA). - Let's pretend you have a third retirement account option that lets you get a tax deduction when you put money in (like a Traditional 401k). This account also lets you take money out after age 59.5 tax-free (like a Roth account). Do you think you would put as much as you could into this account? This is essentially what an HSA is if you spend the money on qualifying medical expenses.

You contribute money now and get a tax deduction. You can spend the money on medical expenses now and it wouldn't be taxable. This is not a "bad" thing to do, but it's far from optimal. You can invest the money and it will grow tax free. In retirement, you can spend the money on qualifying medical expenses and you won't pay any tax.

But what if you save too much? You can spend it on Medicare premiums and reimburse yourself for previous expenses. If you can pay out of pocket now, start stuffing receipts in a folder and save them for when you need funds and you can reimburse yourself then.

401k match- Do you like risk-free rates of return? If your company offers a match of any kind and you can save, there are very few reasons you shouldn't do this.

Remember our fee conversation from suggestions 9? This applies to 401k funds too, and especially 403b plans. Make sure you aren't overpaying or paying more for something for no reason. It's a good time to check-in on your investment choices anyway and make sure your beneficiary designations are still accurate.

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