

Financial Planning for 2020 - Transcript

Tim Mullooly: Welcome back to Living With Money. This is Tim Mullooly. On today's episode, I wanted to take some time now that 2020 the new year has started, to go over some good financial planning tips. A couple things that you can check off your list here in the month of January to get yourself started financially on the right foot for this new year. If you follow along to the content that we put out on the Mullooly Asset website. I did a video about this, there's a quick video about I think four or five minutes about similar topics points to go over for financial planning in 2020. I just wanted to take some time and expand on a couple of those thoughts that we weren't able to cover in the quick video. So that's going to be the purpose of today's episode. There are three or four things that we're going to evaluate and then just a couple little things to check and clean up at the end.

So with that, let's dive right in. So if you've listened to any of the financial planning episodes that we've had in the past, you know that one of the first places, or probably the first place that you should start when doing a financial plan is evaluating your cash flows or your budget. Financial plans are supposed to be fluid, they're not supposed to be set in stone when the ink dries on your original financial plan, that piece of paper that you walk away with, it's already almost outdated. Because things are constantly changing, people switch jobs, they move, they have kids, they get married, they get divorced, they buy a new car, they have projects to do around the house. Things happen. Things creep up. Life is expensive and you need to plan for it, but at the same time, you need to be flexible and be able to adjust when things change and it's a new year.

So what better time then, you have a clean 12 months to look back on 2019 easily accessible at your fingertips. If you have online bank statements or you get statements in the mail from your bank, from your credit card, from any investment accounts that you have, you should be able to neatly track what you spent, what was coming in 2019. So we figured in January, it's a good time to, if this is your new year's resolution to get your finances in order. Here you go. This is probably the best place to start is to evaluate your cash flows. So early in the new year, you should get your W2 for your taxes that are due in April. You can check on your W2 to see how much money actually came in after taxes and hit your bank account. For me, sometimes you do a double-take when you see the amount that actually comes in, you're like, wow, that much came into my, into my bank account? Where did it all go?

But still, just knowing that number that comes into your account is very important because then you can further go down and see, all right, this much came in. Where did it go? How did I end up with so little or so much? So it's important to know how much came in and it's also important to know how much do you have left after all the bills and expenses and living your life. Another thing to think about in terms of money coming in for this new year is, are you expecting a raise in 2020? If so, do you know when it's coming and how much it's going to be? Some people have built in raises every year that their salary, the amount that they get paid goes up. Like Clockwork every year they get X amount increase per year on this state. So if you do know that and you know for a fact that it's coming, you should really take that into account when you're making your budget for this coming year, it'll give you more to work with and it's definitely something that you want to account for.

However, if it's not a guaranteed yearly raise, like some years you get a raise depending on certain variables or certain factors at your job. If it's not definitely guaranteed or you don't know when exactly it's going to come, I would recommend probably doing your 2020 budget without taking a potential raise into account. So you know that you can make things work with what you definitely had coming in during 2019. So if you make your budget with what you had coming in during last year and then you get a bonus or you get a raise at some point during the year, you already know that your expenses are covered. So whatever that raises is pretty much just like icing on top or it's gravy. You can add it into savings or bump things up when that raise actually does come. But if it's not guaranteed, again, I would recommend probably just making your budget for 2020 with the numbers that you had for 2019 it's safer that way.

So once you've reviewed money coming in, it's now time to look at the other side of the cashflow equation, which is money going out. How much money did you actually spend versus how much money were you actually planning on spending? If you had a financial plan and you had a budget designated for certain categories, money allotted to certain areas, did you actually end up spending that much or that little? If you didn't, where did things go wrong? How can you kind of tweak that for 2020 to make sure that you don't overspend in certain areas or maybe you can afford to spend more in other areas? I would recommend not doing "back of the envelope numbers" or rough estimates when it comes to evaluating your numbers. I mean it's easy to do whole numbers, like I spent about 200 bucks on this per month or I spent about a hundred bucks on this, a hundred bucks on that.

I would shy away from doing rough estimates because like I said before, if you have, it's a new fresh year you have, you should have 12 months going back of statements for all of your accounts. Pull out the monthly bank statements it might be a little tedious, but trust me, if you get a more exact number, your budget is going to be a lot tighter and there's going to be less wiggle room and you're going to know exactly how much you spent and how much you can afford to spend this year coming up. So pull out the monthly bank statements, categorize things and add it up. It might take a while, but those exact numbers are really going to help and they should be readily available. So take time to sit down and really do the math, it's definitely worth it.

So when it comes to your expenses, you want to take a look at fixed expenses and your variable expenses. Sometimes things that we categorize as fixed expenses can slightly vary from what you thought it might be. It might not be significantly different, but if it is a little bit different, those fixed expenses, you need to take that into account as well. Maybe your electric bill is a little higher than you anticipated for whatever reason or you upped your monthly student loan payment at some point during the year and didn't account for that, but you need to going forward into 2020. Maybe you got a new car during the year, if you did, are those monthly payments? If you financed it, are those monthly payments the same that you had on your old car? Or maybe there's a hundred \$200 difference or something like that, you need to adjust as well. If you didn't get a new car, maybe ask yourself the question, could you potentially afford to send more money in a month to your car payment?

What they give you is the minimum that you need to send into, pay out the loan on time. But no, there's nothing to say that you can't send more money into it. So maybe ask yourself that question as well. Are there any changes to your insurance needs that you pay for outside of

work? Like if you have life insurance policies or disability insurance or medical insurance, it's a good time to evaluate if you have the right amount of coverage or do you need more or do you have too much and maybe you can scale back. The beginning of the year is always a good time to look at that as well. One thing, especially in today's day and age that I think you need to do every year is keep an eye on these subscriptions that you have. Personally, I have a handful of subscriptions that I use on a monthly, yearly basis. I know a lot of people do the same.

For starters, it's a good time to evaluate if you're even using the subscriptions that you have. Are you paying for something that you didn't even really use in 2019 and do you still need to keep that subscription? If not, get rid of them. It might seem minuscule or a small amount that won't really move the needle. If you're paying \$5 a month or \$10 a month or something like that for a subscription and you're like, well I'm not using it, but it's not really that expensive. Still doesn't matter. It's easy to get out of these, most subscriptions, it's easy to get out of them and every little bit helps when it comes to cashflow. If you are using them, still take a look at the price, has it changed? Some subscriptions can be kind of sneaky and raise the price ever so slightly year after year. You might have started out paying 995 a year, but three or four years later down the road you're not paying attention. Is that still the price? Are you still paying \$10 a month or \$50 a year, whatever it is.

In some cases if the price has gone up, you might be able to negotiate a lower price. Sometimes it's as easy as just calling and seeing if there's a different bundle or a different deal that you could get to get that price back down to what it was. Even if you can, it's still worth checking in on and you need to know what the price is so that you can properly budget for it. You don't want to be budgeting for something that used to be 995 a month but is now 1395 a month. It's going to throw things slightly off-kilter and you definitely want to avoid that. One thing that definitely needs to get mentioned and it might not be brought up all the time, is pet care, paying if you have a pet, did you get a pet in the last 12 months? And have you adjusted your budget for that?

The holidays, I know for a fact because this past holiday season, it seemed like every other day another friend or family member of mine was getting a new pet and that's awesome. But pets can be kind of expensive and it's a serious budget item that you need to take into account. Don't just gloss over it and say, I'll figure it out, I'll pay for it. They can be expensive and it can get overwhelming if you don't plan for it. So if you got a pet over the holiday season, maybe it was a surprise gift, just know that that's going to be a cost going forward. You know, paying for vet visits and paying for food and everything that comes along with having a pet. So if that happened over the holiday season for you, now would be a good time to plan out how you are going to pay for that in 2020. So that kind of wraps up, I mean there are plenty of other areas that we could highlight in terms of cash flows and break it down.

But those are the bigger points that I wanted to touch on in terms of evaluating how much money's coming in versus going out in a few key categories that might've changed for you over the past few years.

So after you evaluate your cash flows I think the next thing you want to evaluate from 2019 is your savings. If you had savings goals, which sidebar you should, if you had savings goals, did you hit them? This goes back to checking your W2 and seeing where all the money went during

2019, once you do the numbers and you do what we just talked about in your cashflow, you can figure out how much money you've spent per month and you can also calculate if your emergency fund is sufficient going into 2019.

Again, most people recommend that a sufficient emergency fund is three to six months worth of expenses and that's just sitting in savings, not invested in the market ready for an emergency when it happens or if it happens. So once you figure out what that monthly expense number is going to be, you can see if you have enough in the bank and if you don't, that's something you need to work on going forward into 2020.

Another question in terms of savings that you might want to ask yourself is, do you have a retirement plan at work? Like a 401(k), a 457, deferred compensation plan, a 403B if you're a teacher, if so, if you do have one of those accounts, are you contributing to it and how much did you send into it in 2019. If you're not, is 2020 the year that you start? Again, going back to the cash flows, if you hadn't had enough money but maybe you're getting a raise and now you actually have enough in your cashflow on a monthly basis to be able to send some money and start putting money away for retirement into your 401(k) or 403(b) or whatever type of the account it is. If you are sending money into the account and you did in 2019, did you max it out? Are you hitting that contribution limit for 2019 or if you didn't, could you potentially be sending more into that account so you can potentially bump up on maxing out for the year.

Outside of work, if you have a Roth IRA or a traditional IRA, are you maxing those out? The contribution limits for those are a little bit less than for a 401(k) or a 403(b), but still if you're sending money into those types of accounts, are you maxing that out or could you be sending more in in 2020? These are all items that you can check off your list once you have that cash flow, it'll be pretty easy to identify how much money you can actually send in for savings in these retirement accounts. So apart from the actual numbers of how much you're saving, what are your savings habits like? Are they working for you? Did they work for you in 2019? A lot of people tend to just save what's left over at the end of each month. They get paid, they pay their bills, they pay their expenses, they live their life, and if there's any money left at the end of the month, that's what goes into savings. If that's the way that you did it in 2019 maybe in 2020 maybe this is the year that you start paying yourself first.

So as soon as you get paid, the first thing you do is send money to savings. That way money's always being saved regardless of how much you choose to dine out or splurge on things during the month. You know that that couple hundred bucks, thousand bucks, whatever you wanted to send, if you can to savings, you know that it's there already and you don't have to worry about, well, I need to have some money left over at the end of the month nah, that's already taken care of for you if you pay yourself first. So maybe think about switching to that method of savings in 2020. How much should you be saving? Again, that goes back to the cashflow, but it also, that depends on your goals, which we'll talk about a little bit more later on in the episode. There's a hierarchy of thinking here, first thing you want to establish is an emergency fund, obviously like we said, three to six months of expenses.

And then you want to work towards, you want to have short term goals, you want to have longer term goals, and then you also want to have your retirement goals. It doesn't need to be an all or

nothing thing either. Some people think, well, right now I'm saving pretty short term goals, I don't have money to put towards retirement or vice versa. I'm saving for retirement, I have to put all this money to retirement and nothing else. It's not necessarily the case. If that's the way you want to do it, great, but just know that you can be putting money into all three of those buckets at the same time. Just in different proportions. Maybe you're sending more into the short term goals to knock those out or maybe you're putting more into the longterm goals and saving less for short term. It depends, but you can do all of those at once. You just have to sit down and do the math and figure out how much you can put into each of those buckets.

When it comes to saving, the most important thing that you need to do is just have a plan and have a plan that works for you. Like I said, some people save money in different ways and that's totally okay. The amounts that people are going to save will be different for every person, but using the cash flow analysis that we talked about earlier, you'll be able to know how much you personally can afford to sock away each month and don't be disappointed by the number that comes out or if you want to change that number, don't worry about that either. If you're saving more or less, whatever works for you as long as it works. That's really what it's all about. If the number that you come up with doesn't sound like it's enough, where you want to save more, just know that you can always play around with the numbers and cut back on some spending that you're doing so you can put more away for savings. One last quick thing about savings. It's 2020 people. Please automate it.

Automate your savings. I mean it, it makes it so much easier if you don't have to manually go in and put things into different accounts. We have the technology, it's out there, so please get up to speed in 2020 and just automate your savings. Trust me, it'll be a lot easier having it done for you. Once you've checked out your cash flows and your savings habits, you also need to evaluate your goals. I mean, the whole point of having a financial plan is to work towards your financial and your life goals. Every year you should reevaluate your goals to make sure that those goals that you set are still the goals that you want to accomplish. People change, circumstances change like I laid out before. If you got married, if you move, there's so many things that change throughout the year that it means that your goals are obviously going to change as well and that's okay don't worry about that.

And if your goals haven't changed, then great keep on doing what you're doing. Like I said before, there are a couple of different buckets in terms of goals that I think you should have. Short term goals, I identify as something that's going to happen in the next year, in the next couple months, six months, 10 months, 12 months, something within the next year. Did you hit the ones, your short term goals that you set for 2019? If so, awesome. Hats off to you. If not, why not and how can you change what you did in 2019 so that you hit them for sure in 2020? Be sure to write down what some of the new short term goals that you'd like to accomplish this year are. Writing them down is a great way to hold yourself accountable. What I call medium term goals. Those are things that are going to happen, but not in the next year, maybe in the next one to five years.

Those medium term goals, are you still on track for those? And how close are they getting? Did some of your medium term goals get close enough to the point where they're now short term goals? If you determine that you're not on track for these medium term goals or they're getting

closer and they're closing in on you, how can you realistically adjust your financial plan to make up some ground and make sure that those goals get hit when they become short term goals and they actually need to be accomplished? So after you look over your short term, your medium term, you can guess what's next. The longterm goals are you chipping away at them? They're still far off in the future, but that doesn't necessarily mean that they're not important. Like we were talking about with retirement. That's always a longterm goal.

You can be saving money for all of these at the same time in different proportions. So just make sure that you're still on track. And that those are still goals that you still want to accomplish. So I kind of pushed this next topic down the list because I think everything that we've talked about before, we talk about this next topic is more important. After you've evaluated your cash flows, after you've evaluated your savings and your savings habits, after you've evaluated your goals, now it's time to evaluate your investments. It is important to check in on your investments. No, not every single day. Please don't do that. Not every week. I mean not even every, you don't even need to check in on them every month, but at the end of the year, yeah, it is a good time to check in and at least see how the portfolio looks. Notice that I'm saying check in and not necessarily a good time to make changes to your investments unless you're day trading your account, which again, I wouldn't really recommend doing that.

Your investments should be designed for your longer term goals like we just talked about. So as long as your investments are still in line with those longterm goals that you set, there isn't really a glaring need to rip up the script just because it's a new year. Just because the calendar flip from 2019 to 2020 that doesn't mean that you have to go in and make changes for the new year. The market doesn't know that the calendars flip to January. The market doesn't know that 2020 has started really. Just because it's the new year, it doesn't mean that it's a good time to go speculate on what stock or hot IPO or hot stock that you think is going to do really well in 2020. Or trying time the market because of how you think the market's going to perform over the coming 12 months. If your portfolio was constructed in alignment with a financial plan as it should be, it is a good time to check in to see how things are going and that's about it.

Two quick things that I want to touch on before we wrap up here. Things that you should check in the beginning of the new year. First you want to check your tax withholding. Going back to the very first thing that we talked about on your W2, you'll be able to see how much was withheld for federal and state taxes in 2019. A lot of people notice that they didn't get as much back in their refund from their 2018 taxes as they were expecting. A lot of people thought that because of the tax code changes that that meant they would be getting big refunds and big bonuses back and were disappointed when that wasn't the case. The tax changes adjusted some people's withholding amount for them without them really realizing it, so they were actually getting slightly more money in their paycheck throughout the year, which led to a smaller refund and ultimately led to some disappointed people.

This time around. It would really benefit individuals, I think to take an active role in your tax withholding. So many people just set up their withholding when they start a job and then they never ever adjust it again. Some people really like getting that big refund check. When you file your taxes in April, they think it's like a nice bonus or free money, but you can always adjust your withholding so that you get more money in your paycheck each week or every couple of

weeks or every month, however often you get paid. You can have that money put into your paycheck if you need it on a cashflow basis month to month. That could be a good way to put some more money into your bank account on a monthly basis as opposed to waiting to get it all back in one big refund. But again, that's 100% personal preference.

If you really like getting your tax refund, big check after filing your taxes, that's great, but just know if you do need some help in terms of monthly cashflow you can. You might be able to tweak it a little bit so that you know you have more money staying in your paycheck each pay period. Last thing I want to touch on is just going back to those workplace retirement accounts and retirement plans in general. For 2020 check the contribution limits \$19,500 for those under 50 years old into a 401(k) for this year and \$26,000 for those over 50 for 401(k) this year. As of this recording, I believe it's still \$6,000 into an IRA or a Roth IRA, but again, go online, you can look those up and you can check to see how much you can send into whatever type of workplace retirement or non workplace retirement plan that you have.

Be sure if you can send more money into the account. Great, so these are just a couple of things that I think are important to check and evaluate as we start the new year. If you get all of these done before the end of January, I think you're going to be in better shape with a better peace of mind than a lot of people out there. Hopefully, if you want to get your 2020 financial year started on the right foot, you can do a couple of these things. Check a couple of these things off your list and know that you're going into the year with a plan and with good peace of mind that you have things in order.

So that's going to wrap up this episode of Living With Money. Thanks for listening and we'll see you on the next one.