BIRCHWOOD
FINANCIAL PARTNERS
Knowledge. Insight. Wisdom.

— GETTING — ORGANIZED GUIDE

A simple guide to help get your finances in order

BIRCHWOOD
FINANCIAL PARTNERS
Knowledge. Insight. Wisdom.

3300 EDINBOROUGH WAY
SUITE 610
EDINA, MN 55435

952-885-9088
BIRCHWOODFP.COM

— TABLE OF — CONTENTS

— ABOUT BIRCHWOOD — FINANCIAL PARTNERS

Birchwood Financial Partners is a fee-only financial planning and investment management firm founded on the relationship we have with each and every client. Our team can help you identify how money intersects with your values and goals around family, meaningful work, lifestyle and giving back. Together we work with you to build a tailored financial strategy designed to give you an understanding of how your resources align with your goals as well as give you guidance on how to protect and grow your financial foundation.

A good

FINANCIAL PLAN

is a road map that shows us exactly how the choices we make today will affect our future.

— *Alexa Von Tobel*

ORGANIZING YOUR FINANCES

Whether you're recently married, ready for retirement, or anywhere in between, your personal finances probably need some organizing. Whether it's time for a little spring cleaning or a full-scale financial Marie Kondo-like session depends on how active you've been in the last year – either as an investor or an organizer – but we'll explain that as we go. Here are our tips for getting your finances organized.

ONLY 30%

of Americans have a long-term financial plan that includes savings and investment goals.

Source: Gallup Poll 2013

— IMPORTANT — DOCUMENTS

There are many documents that are needed to take care of an estate. Below is a partial list of the most common documents you will need to gather. Make sure these are included in your organizing system so you will have easy access to them when needed.

Life Insurance Policies

Look for policies from these sources:

- Independent Insurance companies
- Employer Insurance
- Association or Fraternal Organization
- Loan or credit companies
- Auto insurance (in some circumstances)

Financial

- Tax returns
- Bank, investment and retirement accounts
- Home title and mortgage
- Car title and loan information
- Credit card accounts and other debt
- Utilities and bills
- Employer Benefits
- Unpaid salary, bonus, commission, vacation pay, PTO, sick time
- Flex benefits and Health Savings Account
- Stock options, Restricted Stock, Employee stock
- Pension
- Cobra Insurance for health, dental, vision
- Retirement accounts such as 401k, 403b, 457 plans

Personal Documents

- Birth certificates (Deceased spouse, children)
- Death certificate
- Marriage certificate, divorce decree
- Military Discharge papers
- Veterans VA claim number
- Social Security number

Estate Documents

- Wills
- Trusts
- Power of Attorney
- Health Care Directives

— CASH FLOW —
MONEY IN & OUT

It is important to know where you stand financially. Without knowing, you may worry unnecessarily. Or on the flip side, you may be spending unwisely to the detriment of your financial future. The best way to do this is to create Cash Flow and Net Worth Statements.

Cash flow is simply your income minus your expenses. Included in this section is a cash flow worksheet titled Personal Monthly Budget. The cash flow worksheet will help you categorize your income as well as your bills. You may want to keep your latest monthly bills in a file folder (or your accordion file) so you stay organized and are more likely to pay your bills on time.

— UNDERSTANDING —
INCOME & EXPENSES

Income:

This is the money coming in – such as your paycheck, social security check, rental income, investment income, etc.

Expenses:

This is the money going out. It's for regular monthly bills, taxes, commitments, etc. Many bills, such as property taxes and life insurance payments, are not paid monthly but paid on an annual or quarterly basis. For those bills, calculate how much you would need to save each month to meet these periodic expenses and put that number in the worksheet. It's very helpful to save up for those expenses. Not doing so means you end up with a large bill periodically where you have to scramble to come up with the funds to pay it. This can leave you feeling like you can never get ahead. Save in advance to have the money set aside for when the bill is due and you'll run into fewer problems.

— PERSONAL —
MONTHLY BUDGET

Projected Monthly Income	
Wages	
Social Security	
Pension	
Dividend and Interest	
Other	
TOTAL	

EXPENSES

HOUSING	
Mortgage or Rent	
Phone	
Cable	
Electricity	
Gas	
Water & Sewer/City	
Trash	
Maintenance/Repairs	
Household Goods	
Other	
TOTAL	

CHILDREN	
Daycare	
School Expenses	
Clothing	
Allowance	
Other	
TOTAL	

TRANSPORTATION	
Car Payment	
Bus/Taxi/Light Rail	
Auto Insurance	
Maintenance/Repairs	
Tabs/Licensing	
Other	
TOTAL	

INSURANCE	
Health	
Home	
Life	
Disability	
Long Term Care	
Umbrella	
Other	
TOTAL	

GIFTS AND DONATIONS	
Gifts-General	
Gifts-Holiday	
Charity	
TOTAL	

PET CARE	
Food and Supplies	
Medical	
Grooming	
TOTAL	

ESCROW FOR OCCASIONAL EXPENSES	
Vacations	
Other	
TOTAL	

FOOD	
Groceries	
Dining Out	
Other	
TOTAL	

MEDICAL	
Health Insurance Premium	
Co-pay & Deductible	
Dental	
Vision	
Eye Glass/Contacts	
Other	
TOTAL	

PERSONAL CARE	
Hair/Nails	
Dry Cleaning	
Health Club	
Clothing	
Organization Dates & Subscriptions	
Other	
TOTAL	

ENTERTAINMENT	
DVD/Streaming/ Movies	
Sporting Events	
Concerts	
Hobby	
Other	
TOTAL	

LOANS	
Student	
Personal	
Credit Card	
Other	
TOTAL	

PROFESSIONAL SERVICES	
Attorney	
Tax Preparer/CPA	
Handy Person	
Lawn Care/Gardener	
House Cleaner	
Other	
TOTAL	

Savings and Investments	
Taxes (If not using net income)	
Surplus/Deficit	

Create your own budget in Excel

— NET WORTH —

WHAT YOU OWN & OWE

Your net worth is simply the difference between what you own and what you owe. Make a list of all the things you own and owe. Subtract the two and that will give you your Net Worth.

ASSETS:

These are the things you own such as: house, car, bank accounts, investment accounts, retirement accounts, real estate, etc.

LIABILITIES:

These are things you owe: such as a mortgage, auto loans, student loans, credit card debt, unsecured debt.

— NET WORTH — STATEMENT

ASSETS

	VALUE
House	
Real Estate	
Bank Accounts	
Investment Accounts	
Retirement Accounts	
Other	
TOTAL	

[Start your Net Worth Statement on Google Sheets!]

LIABILITIES

	VALUE
Mortgage	
Unsecured Debt	
Credit Cards	
Student Loans	
Other	
TOTAL	
NET WORTH	
(Subtract liabilities from assets)	

— TYPES OF — ACCOUNTS

There are many books dedicated to helping you understand banking and investments. If you are unfamiliar with your accounts, you may want to spend time with one of these books or with a financial professional to learn about personal finance. To get you started, below is an introduction to various financial accounts and how they differ in regards to **access and taxes.**

Access:

Access means, can you sell your accounts and take the sales proceeds as cash without any penalties?

Taxation:

Taxation has a couple of different forms. Accounts that are taxed as ordinary income are taxed just like your earnings in a pay check. Ordinary income is a tiered tax system. Your first dollars are taxed at one level, then next dollars are at a higher rate, and so on.

Capital Gains Tax:

There is also capital gains tax, which currently is lower than ordinary income. Therefore this kind of tax is more favorable than ordinary income tax. Capital Gains is applied to some investments where there has been a gain. (If you sold the investment for more than the purchase price).

** Note that the taxation of the accounts listed below assume the accounts are non-retirement accounts. Retirement accounts are taxed differently and is detailed at the end of the section.*

TYPES OF ACCOUNTS

BANK ACCOUNTS:

Description:

Bank accounts include checking accounts, savings account, money markets and certificates of deposit. (CDs). Most bank accounts are FDIC insured to a certain level and are very safe investments. The investments are considered cash. Essentially, money you have on deposit in the bank is loaned out by the bank to other people. That is why the bank pays you an interest rate for your accounts. You are loaning the bank money for them to lend to others. On a CD there is a particular date in which the CD comes due and you can get your money back. The bank knows how long they have your money to loan out to others, so the interest rate on a CD tends to be higher than that of savings accounts.

Access:

You should have full access to these accounts. You can pull money out of these accounts any time you want. If money is in a CD, then there is a date listed before which if you pull money out of it sooner there would be a slight penalty. This penalty is imposed by the bank and is often a loss of interest for a particular time period.

Taxation:

The interest from bank accounts is considered ordinary income. You pay income taxes on money earned in this account.

BONDS:

Description:

A bond is similar to a CD in that it is a loan with a time limit. Bonds are loans issued by governments, corporations and other entities such as hospitals but are not necessarily FDIC/ government insured. A bond has a particular face amount, such as $1,000 and generally promises to pay interest. The bond issuer also promises to pay the principal back at a certain time.

Access:

You can generally cash in your bond any time you want. However, if you sell a bond before the maturity date, the amount you receive may be higher or lower than the face amount.

TYPES OF ACCOUNTS

BONDS: (CONT.)

Taxation:

The interest paid each year is usually taxable as ordinary income. If you were to sell the bond for a gain (for more than what you paid for it), then the gain amount is subject to capital gains tax.

STOCK:

Description:

A stock is ownership in a corporation. For example, the ownership of Apple Corporation is shared by many people. The ownership is divided up into shares called stock. The price of the stock goes up and down depending on how many people want to buy or sell the stock on a given day. When a corporation has a profit, they sometimes share that profit with the shareholders in the form of a dividend.

Access:

You can usually sell your stock at any time and take the cash. The amount you receive for the stock sale may be higher or lower than the price that was paid for it.

Taxation:

The taxation of dividends is either the more favorable capital gains rate or ordinary income. Currently, dividends of U.S companies are taxed at capital gains rate. Dividends of foreign companies and non-qualified companies are taxed at the ordinary income rate.

MUTUAL FUNDS:

Description:

A mutual fund is an investment where a professional money manager pools money from many people to invest in a diversified portfolio of investments. Money Managers can invest in bonds, stocks or other investments depending on their charter. The purpose of mutual funds is to allow smaller investors the ability to diversify their investments over many different stocks or bonds. By diversifying, an investor may lower their risk. If you invested in just a handful of companies

TYPES OF ACCOUNTS

MUTUAL FUNDS: (CONT.)

and a couple of them were poor investments, it would have a bigger risk to your returns than if you were invested in hundreds of companies and a handful were poor investments.

Access:

You have complete access to funds in your mutual fund. When selling, the amount you receive may be higher or lower than the amount that was paid for the investment.

Taxation:

Mutual funds must distribute their dividends, interest and capital gains by the end of each year. Unless inside a retirement account, these distributions will be taxed each year either as ordinary income (interest and dividends from entities which are not US corporations) or as capital gains (capital gains and dividends of US companies).

Additionally, if you sold shares of the mutual fund for more than you paid for it, the gain would be taxed at the favorable capital gains rate.

ANNUITIES:

Description:

Annuities come in four main varieties – immediate, fixed, variable and indexed - each have their own level of risk and payout potential.

Immediate annuities pay a monthly income stream and act very much like a pension.The income stream can be for a fixed period of time such as 5 years, or for your lifetime, or both. Fixed annuities pay out a guaranteed amount based on the balance of your account. The downside of this predictability is a modest annual return. In a variable annuity, you pick from a menu of mutual funds that comprise your personal "subaccount." Here, your payments in retirement are based on the performance of investments in your subaccount. Indexed annuities are somewhere in between when it comes to risk and potential reward. You receive a guaranteed minimum payout, although a portion of your disbursements is tied to the performance of a market index, such as the S&P 500.

TYPES OF ACCOUNTS

ANNUITIES: (CONT.)

All annuities generally have a surrender period. That means that if you sell or surrender, your annuity before the end of the period, the insurance company will impose a penalty for taking your money early. This penalty is typically 1-9% of the annuity.

Access:

You can access the account penalty free if:

1. You are over the age of 59½
2. You are beyond the insurance company's surrender period. If you are under 59 ½, then the IRS will impose a 10% penalty.

Taxation:

The distributions from this account that are considered gain (the difference between what the investment was purchased for and what it grew to). The gain is taxed as ordinary income.

RETIREMENT ACCOUNTS:

Description:

Retirement accounts are accounts that are in a special wrapper that has specific rules and different taxes than non-retirement accounts. These accounts include (but may not be limited to) 401k, 403b, 457, Individual Retirement Accounts (IRA) Roth IRAs, SIMPLE, SEP IRA, SEP, 401k and other Qualified Retirement Accounts. The type of investment inside these wrappers are the same that are listed above. A retirement account can be at a bank, hold stocks, bonds or mutual funds, or even be an annuity. However, the taxation of all these investments is completely different than what is stated above if these investments are inside a retirement account.

Access:

If this is your own account:

You can generally access these accounts after the age of 59 ½ without penalty. Since the value of investments vary daily, the amount you receive may be higher or lower than the amount you invested.

TYPES OF ACCOUNTS

RETIREMENT ACCOUNTS: (CONT.)

If you access this account before the age of 59 ½ , then you face a penalty from the IRS of 10% unless it is a SIMPLE account. If it is a SIMPLE that is less than 2 years old then the IRS penalty is 20%.

If it is a Roth IRA, then in order to have full access to all the funds then you not only need to be the age of 59 ½ but the account also has to have been open 5 years.

If the account is at your employer and you are still working, you won't be able to access this account until after you quit working and are over the age of 59 ½.

Taxation:

All distributions will be taxed as ordinary income from these accounts except for the case where there were non-deductible contributions, the entire distribution will be treated as ordinary income and taxed as ordinary income. It does not matter how much was the original investment or how much is gain, the entire distribution is treated as ordinary income.

Roth IRAs are the exception. If you take money out of the Roth IRA then there is no tax due at all if the following has been met: 1.) It is a beneficiary Roth IRA or 2.) It is your own Roth IRA and you are over the age of 59 ½ and the account has been open 5 years.

There are many exceptions and nuances to retirement accounts. Please confer with a financial professional if you have a case that is not straight forward or if you have any questions.

— ESTATE PLAN — DOCUMENTS

You will need to update (or create) your own estate plan documents. It is best to do so with an Estate Planning Attorney. Estate planning includes several documents that can direct your affairs in life and in death. Here is a brief description of these important estate planning documents.

POWER OF ATTORNEY:

The Power of Attorney is the document that names someone to carry on your financial affairs if you aren't able. You will want to name a responsible person you can trust. This is a document that is useful to you while you are still alive.

HEATH CARE DIRECTIVE:

The Health Care Directive will allow you to appoint a health care agent in the event you can't speak for yourself during a medical crisis. In the document you can outline your preferences given a variety of possible medical events. It's imperative to have this so that you can be well cared for when you are ill and unable to arrange for care yourself. Without this document a loved one might have to go to court in order to obtain the proper care for you if you are sick and can't speak for yourself.

WILL:

This is the document where you list who is going to receive all your belongings and assets you've accumulated over the years. In the will you appoint a personal representative or

ESTATE PLAN DOCUMENTS

WILL: (CONT.)

executor who will take care of your estate after you've gone. (Note that the moment you die, the Power of Attorney is no longer applicable and the personal representative takes over). You can also list guardians for your children if applicable. Finally, you list who will receive your assets when you die.

Note, that not all your assets go through the will to see who will be the recipient. Some assets utilize beneficiary designations so it is important to coordinate your will and beneficiary designations to ensure your wishes will be carried out.

If you don't have a will when you die, you die intestate (a fancy name for not having a will). At that point your assets get divided according to the laws of your state.

TRUST:

There are several kinds of trusts. The two outlined here are the Testamentary Trust and the Revocable Living Trust. Both are set up with the assistance of an attorney.

- A **Testamentary Trust** is typically used if you have young children that you think aren't old enough to handle large sums of money. You set it up in your will that upon your death the trust is created. It allows you to place the children's inheritance into a trust from which a Trustee can dole out income and principal according to your direction. You may choose to have your children receive their inheritance free of trust at certain ages, after certain events such as graduating college, or simply keep the money in trust for their life span.

- A **revocable living trust** is a trust you set up during life and put your assets into the trust while you are alive. You name the beneficiaries and can dictate how they receive your assets such as all at once or over the course of time. The assets inside the trust avoid probate, which can save your beneficiaries time and money. Additionally, this type of trust is private, whereas a will is a public document.

ESTATE PLAN DOCUMENTS

BENEFICIARY DOCUMENTS:

We highlighted wills and trusts as vehicles from which to distribute your assets. It's important to note, however, that many assets are beneficiary assets. Meaning that a beneficiary form is required that names the heirs that will receive that particular asset.

Once you die, your asset goes to those named people. Your will won't even be considered for distribution for these assets.

The following assets are beneficiary assets and function entirely outside your will:

- Retirement accounts
- Employer investment account
- Annuities
- Bank accounts with a Payable on Death (POD)
- Investment accounts with a Transfer on Death (TOD)
- Life insurance
- Long term Care insurance (for any unused portion of the premium)
- Quit Claim Deeds
- Transfer on Death for your home

— CREATING YOUR — FINANCIAL PLAN

When thinking about creating a financial plan, consider your goals, when you might want to retire, how much you would like to live on now and in the future. Perhaps it will be time to move someday. Maybe you would like to help grandchildren with college expenses. You may have a favorite charity or cause you would like to support now and in your estate.

A Financial Plan will help you figure out how to maximize your resources to meet your goals.

Components of a Financial Plan:

- Your goals, values and dreams.
- Your current resources such as investment accounts, retirement accounts, etc.
- Additions to your resources such as contributing to an employer retirement plan.
- Future resources such as expected inheritance, sale of an asset.
- How long you want to work.
- How much you need to live on.

Your own financial plan will include working toward your goals, making sure you have the right insurance, updating your estate documents and structuring your assets and income in a tax-effective manner.

Consider working with a qualified financial advisor to create a financial plan. Once you have all your components in place, you can work together with your advisor to see how all the pieces fit. If the plan looks good, you can look at additional goals and dreams to see if they can be added. If the plan doesn't look good, you can look to see what can be altered so that you can be successful.

About the Author
— BRIDGET HANDKE —

Bridget Handke, CFP® CAP®, one of the owners of Birchwood Financial Partners, has a personal mission to help people thrive. She is able to translate complex financial concepts into plain language so financial plans become easy to understand. In addition to her professional affiliations and certifications, Bridget has been quoted in publications such as the Star Tribune, Chicago Tribune and Wall Street Journal and speaks frequently on personal and women's finance topics. Bridget believes philanthropic giving can have such a positive impact on communities that she earned the CAP® designation – Chartered Advisor in Philanthropy.

Working with the right financial advisor can make a world of difference for your financial future. Here's what you can anticipate during a planning meeting with Birchwood Financial Partners.

WE'LL DISCUSS:

- Plans tailored specifically to your financial goals and needs
- Recent or upcoming life transitions like marriage, inheritances, and retirement
- Where we can help simplify the complexities of your finances to help you make choices with confidence

— SCHEDULE A —
PLANNING MEETING

BIRCHWOOD
FINANCIAL PARTNERS
Knowledge. Insight. Wisdom.