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Financial Planning Essentials You Shouldn't Ignore

By addressing these often-overlooked financial planning areas, you can create a comprehensive and adaptable financial plan that withstands life's challenges.



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WHEN IT COMES TO FINANCIAL PLANNING, it's easy to focus solely on the immediate concerns of budgeting, saving, and investing. However, a truly robust financial plan delves into a host of often-forgotten areas that can have a profound impact on your long-term financial security. It's time to shine a spotlight on a few of these overlooked financial planning issues that are essential for a truly comprehensive and successful financial future.

Long-Term Care Planning

No one wants to talk about it. But, at some point we may need it. Most people don't even think about it unless they are dealing with aging parents who currently need long-term care. However, waiting until you need long-term care can bring even more heartache as the rising cost of long-term care can derail even the most carefully laid financial plans.

The first thing I tell clients is that Medicare and Medicare Supplement Insurance don't cover long-term care. According to Medicare's own website, "You pay 100% for non-covered services, including most long-term care."¹ And long-term care is expensive. The American Association for Long-Term Care Insurance (AALTCI) reported that in 2022 a record \$13.25 billion² was paid out by long-term care insurance firms to approximately 345,000 policy holders. The cost varies greatly depending what state you live in.³ The cost also varies by gender.

Exploring long-term care insurance, hybrid policies, and Medicaid planning can provide you with a safety net should you need assistance later in life.

The AALTCI reports that a 55-year-old man buying \$165,000 worth of immediate long-term care benefits is likely to pay an annual premium of \$900. A woman purchasing a similar policy is expected to pay a \$1,500 annual premium. This is because women tend to need care longer (3.7 years) than men (2.2 years).⁴

In the past decade, insurance companies have created many different options to protect against this risk. Exploring long-term care insurance, hybrid policies, and Medicaid planning can provide you with a safety net should you need assistance later in life.

Estate Planning Beyond a Will

While a will is vital for distributing your assets, comprehensive estate planning includes designating powers of attorney, healthcare directives, and creating trusts. These ensure that your financial and medical wishes are respected, even if you are unable to communicate them. Unfortunately, I've seen too many times where one spouse assumes that the other will make the decisions when the time comes. There are already enough stresses when dealing with the trauma of loss or with someone who is stricken with serious illness. This is not the time to determine who is responsible to handle essential medical and financial decisions. Also, how can you be sure they will do what you want? There are many ways to avoid unnecessary suffering for you and your caregivers. Setting up the decision makers ahead of time and educating those individuals on their responsibilities prior to anything occurring is indispensable. I walk clients through the differences between power of attorney and living wills, the essential healthcare directives needed, and the advantages of a living trust. Having these in place make going through a very difficult time easier.

Digital Asset Management

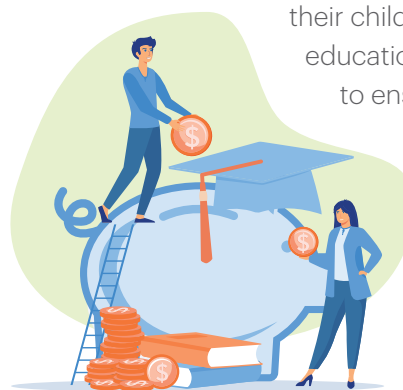
We're all online. Sometimes a little too much, if I'm being completely honest. And many of our assets and records are stored online. But what happens to our digital assets after we are gone? Creating a plan for

your digital assets, including passwords and access information, can simplify matters for your loved ones in case of your passing. A swift downfall to any estate plan is your decision makers not having access to the estate's information. It's easy to see how your estate can have all of its documents in place and all your decision makers selected, but if they don't have access to your digital assets the mountain of red tape they need to wade through is overwhelming. Trying to deal with a financial firm to get the access to financial assets while still dealing with the loss of a loved one is the last thing anyone wants. Digital asset management ensures your wealth is safeguarded and 'digitally' optimized for your loved ones.

Education Planning for Children and Grandchildren

While children are our future, their future education won't be cheap. You cannot overlook the costs of education for future generations. College tuition has increased roughly 12% annually over the last decade, that is four times higher than the historical average inflation. In 2022, the average tuition for a private college was \$39,723 per year and the tuition for an in-state public school was \$10,423 per year.⁵ To help ensure your children and grandchildren have access to quality education, it's important to investigate 529 plans, Coverdell Education Savings Accounts, and other educational savings options. This overlooked essential has imploded many a financial plan. I know clients that have given up a prized retirement plans like trips or

personal purchases to provide for their children's or grandchildren's education. I work with my clients to ensure they don't have to sacrifice their needs while their loved ones get the valuable education they deserve.



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Retirement Healthcare Costs

As we get older our healthcare costs tend to increase. These costs can significantly impact your retirement savings. A 2022 study estimates that a married couple will need \$315,000 to cover medical expenses in retirement, excluding long term care.⁶ These expenses include things like insurance co-payments, doctor appointments, hospital visits, diagnostic procedures, and prescription drugs. These are not 'if' expenses. These are 'when' expenses. In retirement we will be visiting the doctor. We will need prescription medications (whether it's a short-term antibiotic or for a long-term ailment). A Health Savings Account (HSA) is a tax-advantaged tool for saving medical expenses during retirement. Incorporating these into your retirement plan ensures you are better prepared for these essential medical expenses that you will be dealing with throughout your retirement.

Disability Insurance

Expect the unexpected especially in this day and age when anything can happen. An accident could upend your life. A mental impairment could hinder you from doing major activities in your life. An illness like long COVID (considered a disability by the ADA)⁷ could make doing your usual activities difficult. While life insurance is commonly discussed in financial planning, disability insurance is often overlooked even though it is equally important. It provides a financial cushion in case you are unable to work due to a disability, ensuring that your income stream remains intact. Many of my clients are aware of the need for life insurance should a breadwinner predecease. But, what if the spouse is not deceased but unable to work? Now, one spouse will need to care for the other which would not allow them to work either. And it's more common than most people think. According to the Council for Disability Awareness, over 1 in 4 of today's 20 year-olds will become disabled before they retire⁸ and it's not because of accidents. Instead, the CDA reports that back injuries, cancer, heart disease, and other illnesses cause the majority of long-term work absences. Disability insurance is a vital



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layer of protection that that keeps your goals on track, no matter the circumstances. A recommended starting point to find this coverage is through your employer, as many companies offer short of long-term disability income insurance as part of their sponsored benefits. However, employees might need to actively choose to enroll in these plans.

Tax-Efficient Withdrawal Strategies

Did you know that strategically withdrawing funds from your retirement accounts can help minimize tax implications and maximize your retirement income? Understanding that retirement accounts get taxed heavily at income tax rates, unlike after-tax accounts

that might combine initial savings with long-term assets taxed at lower rates, can help your assets endure during retirement. I collaborate with clients to develop tax-efficient distribution plans, akin to asset allocation for investments, that highlight the significance of a tax allocation strategy.

Philanthropic Goals

If giving back matters to you, then don't overlook the need to plan for philanthropy during your retirement. Exploring avenues like donor-advised funds, charitable trusts, and impact investing can help you align your financial goals with your desire to make a positive impact on the world.

Charitable gifts of required minimum distributions is also a good idea. I walk clients through the numerous tax-beneficial options available so they can take full advantage of each opportunity.

Inflation and Retirement Planning

Inflation erodes the purchasing power of your money over time. Integrating inflation into your retirement plan ensures that you're prepared for the rising cost of living throughout your retirement years. I've had so many clients that would not agree to use 3% as a historic inflation rate in their planning. In 2022, inflation approached nearly 10%, but by 2023, it decreased significantly, aligning more closely with the historical rate of around 3%. Yet, even with a relatively modest

inflation rate of about 4%, the cost of everything can still double in under 20 years. This is why inflation is something that we focus on a great deal in the retirement income projections that we do in financial plans.

Caring for Aging Parents

The financial implications of caring for aging parents can be substantial. I meet with so many clients who think their parents did everything right and they would not tell them otherwise until it is too late. With most retirees' parents living through the tech bubble of the 90s and the Great Financial Crisis in the 2000s, many of them moved their funds to ultra-safe options. Unfortunately, over the last decade, this strategy hasn't been effective due to the absence of decent fixed interest rates and inflation. These individuals now need help and their children are their only option. Including this consideration in your financial plan allows you to prepare for potential costs of caring for an aging parent while minimizing the impact on your overall financial stability.

Real Estate Decisions

Decisions related to real estate, such as downsizing, renting, or investing in property, can have far-reaching financial consequences. Building upon earlier discussions about the lack of inflation and low-rate conditions, the present period has presented a favorable opportunity to invest in real estate at cost-effective rates. With the potential benefits of tax planning around rental income and depreciation, this was a very popular way to receive tax-favored earnings.

However, as retirement approaches, being a landlord becomes less appealing. How you unravel these investments significantly impacts previously



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enjoyed tax benefits. Evaluating these choices in the broader context of your comprehensive financial strategy is essential.

Business Succession Planning

Many business owners primarily focus on sustaining their business's success, leaving little time for future planning. However, a significant challenge lies in the fact that a majority of their wealth is tied up in these businesses. Understanding how to access these assets

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during a transition is vital. Notably, decisions made in the years leading up to the transition greatly influence the company's value. Establishing a proactive plan enables strategic decisions that maximize value as they move into the next phase of life.

Travel and Lifestyle Expenses

Retirement often brings dreams of travel and leisure activities. Ensuring you budget for these expenses allows you to enjoy your retirement to the fullest without compromising your overall financial plan. When I discuss retirement plans with clients, travel usually tops their list. This is particularly pertinent now as post-Covid headlines highlight soaring travel costs. Neglecting these expenses could derail your plan and major changes may need to be made.

Financial Planning for Your Future

It's important to look at your financial planning blind spots. Building a strong financial foundation requires more than just a basic understanding of saving and investing. By addressing these often-overlooked financial planning areas, you can create a comprehensive and adaptable financial plan that withstands life's challenges. Collaborating with a knowledgeable financial advisor who understands these nuances ensures that your financial plan is well-rounded, flexible, and tailored to your unique circumstances. By embracing these overlooked facets of financial planning, you can confidently steer through life's uncertainties and build a successful, satisfying future.

For a deeper discussion on these financial planning essentials or any other queries, feel free to reach out to us at 1-866-536-5776.

Footnotes and Links

Long-Term Care Planning

- 1 – <https://www.medicare.gov/coverage/long-term-care>
- 2 – <https://www.aaltci.org/long-term-care-insurance/learning-center/lcfacts-2023.php>
- 3 – <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>
<https://worldpopulationreview.com/state-rankings/nursing-home-costs-by-state>
- 4 – <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>

Education Planning

- 5 – <https://www.usnews.com/education/best-colleges/paying-for-college/articles/paying-for-college-infographic>

Retirement Planning

- 6 – https://institutional.fidelity.com/app/item/RD_13569_42402/retirement-planning-health-care-costs.html

Disabilities Planning

- 7 – <https://www.hhs.gov/civil-rights/for-providers/civil-rights-covid19/guidance-long-covid-disability/index.html>
- 8 – <https://disabilitycanhappen.org/overview/>



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Ryan Hawk joined HBKS® in 2019 as a financial advisor in the Naples, Florida office. He works with high-net-worth families in the design, management and understanding of advanced estate plan designs. He began his career in financial services in 2004. Ryan earned his Bachelor of Science in Business Administration from the University of Central Florida and is a CERTIFIED FINANCIAL PLANNER™.

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