

Personal Financial Planning

Key Personal Financial Benchmarks

My clients frequently ask me how much life insurance should they have, what is a reasonable amount of debt to carry, how much should I be saving, what kind of return should their investments be earning, etc.? I have developed rules of thumb that you can use for these questions. Also, I have broken these questions into three categories: risks, savings and debt and long term savings and retirement. Please keep in mind that these are general rules of thumb and that a specific calculation is necessary for each person's individual needs.

Risks

Life Insurance	10 to 16 times gross pay
Health Insurance	\$2 million cap
Disability Insurance	60-70% of gross pay
Property insurance	Home and auto coverage to fair market value
Liability Insurance	Home and auto \$500,000, plus umbrella below
Personal Umbrella	At least \$2,000,000, extends liability above
Long Term Care	36 to 60 months, \$150 daily benefit with inflation rider

Savings and Debt

Emergency Fund	12 to 18 months of gross pay
House Affordability	Mortgage payment /gross income (GI)=28% or less
Total Debt	Mortgage payment plus all other debt payments not to exceed 36% of (GI)
Mortgage Rate and Term	Under 5% with no points, 15 year term preferred
Credit Card Rate	Under 15%

Long Term Savings and Retirement

Children Education Funding	\$2,000 to \$4,000 a year to age 18
Children College Loans	No more than \$50,000 per child
Income Needed at Retirement	60-70% of annual preretirement salary, <u>no debt at retirement</u>
Annual Savings for Retirement	6-10% of annual gross salary
Return of Assets	6-8%
Risk/Standard Deviation	Conservative- moderate/ 6 to 12, range of return

Life Documents Needed

Will	Primary and secondary beneficiaries
Durable Power of Attorney	Someone to make financial decisions for you due to your disability
Durable Health Power	Someone to make healthcare decisions for you when you are unable
Advanced Life Directive	Determines when medical care ceases