The Exclusive Coaching Program

Proven Systems ... Customized Advice ... Results

COMPREHENSIVE FINANCIAL ACTION CHECKLIST

UPDATED FOR 2021

A system for delivering high-end, consistent, and personalized financial strategies to all of your clients and "qualified" prospects.

APFA

ACADEMY OF PREFERRED FINANCIAL ADVISORS

Partnering with the Industry's Best Advisors

Financial Action Checklist

- Create a <u>**one- or two-page**</u> list of action items the client should prioritize regarding their finances.
  - **Divide into at least three areas:**
    - Always include tax reduction strategies as one of your finding areas. Use at least two of the other four areas depending on the client.
  - **Number of recommendations: 10-15 (depending on the size of their portfolio)**
  - **Leave investments & Insurance (if appropriate) for last**
  - **Keep it simple**

Creating Your Own Financial Action Checklist

Use these five easy steps to help you create your own system for delivering high-level, consistent and personalized financial advice.

1. Create your own personal universe of Financial Action Checklist items. Focus on including the most common financial issues that you encounter and recommend courses of action for your best clients/prospects.

2. Create a template to use for client/prospect meetings. Populate each client/prospect list with the items that best help their individual situation.

3. Try to be specific when possible.

4. Communicate these Financial Action Checklist items at closing and review meetings.

5. Train your professional team to help you find and deliver some of these key checklist items.

★★★★★

Five Star Tip

A focused and organized system will allow you to deliver a higher level of advice in a more efficient manner. If you commit your energy to creating this system, you will maximize your office's efficiency and abilities!

Financial Action Checklist Items

Prepared for: William & Mary Jones
January 2021

Income Tax Planning

1. Reviewed 2019 tax return. Need your 2020 when available and we should consider an income tax projection for 2021 (no surprises!).

2. Avoid potential tax underpayment penalties (You will have to pay at least 90% of the tax that you will owe in the current year, through withholdings or quarterly estimated tax payments, or 100% of the taxes that you paid in the previous year, whichever number is smaller). Quarterly estimated tax payments should continue!

3. Tax Reduction Planning – Increase 401(k) contribution for William to a maximum of $26,000 prior to 12-31-21. Possible SEP IRA contribution for Mary (last year of eligibility), up to a max of 25% of compensation for the year (4/15/21 deadline).

4. ***SECURE* Act Planning**: Review your IRAs and consider potential Roth IRA rollover opportunities.

5. ***SECURE* Act Planning**: Review Family Tax Bracket Management.

Estate Planning

1. Create basic wills for both William and Mary (will get you referred to local estate planning attorney)

2. Create Durable Power of Attorney (for financial decisions).

3. Formalize an Advanced Directive for Health Care (for medical decisions).

4. ***SECURE* Act Planning**: Confirm that all beneficiaries of retirement accounts are 100% to spouse, as primary beneficiary.

5. ***SECURE* Act Planning**: Confirm all primary and contingent beneficiaries

This Financial Action Checklist is for illustrative and discussion purposes only!

Retirement Income Planning

1. You should be able to draw at least 4% to 4.5% from investments and not run the risk of running out of money during your lifetimes. $529,000 (current savings) would generate $23,805 at a 4.5% draw rate ($1,984 per month). Continue building 401(k) balance.

2. Social Security Benefits for William (1962 birth) is age 67 for full benefits. Age 62 is early. A 2028 retirement matches well with SS.

3. At a later date, review cash flow analysis to determine retirement income needs.

4. ***SECURE* Act Planning:** Coordinate Retirement Income Planning with retirement plan drawdowns.

Investment Planning

1. Consolidate retirement accounts (excluding 401k for William). Less paperwork and better ability to coordinate total asset allocation.

2. Review Your Current Consolidated Asset Allocation Report. 54.4% stocks (equities) and 45.6% bonds/cash. Very conservative portfolio.

3. Keep 3 to 6 months of expenses in the bank for emergency money (Plus cash for both taxes due in April of ’20 and for quarterly estimated tax payments).

4. Keep Fidelity Account open for Mary stock trading (Full ACAT – money to be added later).

Insurance

1. Verify adequate medical insurance.

2. Age 65 for William, review Medicare eligibility.

3. Life Insurance is 3x salary (company sponsored) on William’s life with Mary as beneficiary – excellent benefit.

4. Consider getting umbrella policy (see your Insurance Agent).

This Financial Action Checklist is for illustrative and discussion purposes only!

Comprehensive Financial Action Checklist Items

Income Tax Planning

1) Prepare your 2021 tax projection

2) Take advantage of any new tax laws since many of these change each year

3) Make a charitable contribution through a Qualified Charitable Distribution (QCD) directly from your IRA

4) Compare your last two years' income tax returns and see if there are any major differences that warrant further investigation

5) Don't overlook certain deductions /credits/long-term capital losses carried over from prior year

6) Calculate if you have a negative taxable income and increase your income/reduce your deductions to bring that amount up to zero

7) ***SECURE* Act Planning**: Review your IRAs and consider potential partial or full Roth IRA rollover opportunities

8) ***SECURE* Act Planning**: Review Family Tax Bracket Management

9) Calculate the optimal amount of money to convert from your Traditional IRA to a Roth IRA

10) Investigate new tax reduction strategies due to:
    a. Job loss
    b. Your retirement
    c. Your health
    d. The sale of your business/residence/rental property/stocks
    e. You turned age 72 and are now required to take out a minimum distribution from your IRA

11) Reduce your Adjusted Gross Income to decrease the taxation of your Social Security benefits

12) Review strategies to avoid/reduce the New Medicare Tax

13) Sell taxable bonds/CDs and invest proceeds in tax-advantaged investment.

14) Review non-qualified dividends because they are taxed as ordinary income

15) Place the proper investments in the appropriate type of account (such as placing stocks that generate dividends *outside* of retirement accounts and put investments that generate ordinary income *inside* of retirement accounts)

16) Don't forget reinvestments of dividends and capital gains in your mutual fund, which increases its cost basis

17) Sell enough appreciated property with unrealized long-term capital gains to reach the top of your 12% tax bracket – the long-term capital gains will be tax-free. Then repurchase the same investment to increase your cost basis to reduce unnecessary capital gains tax in the future. (The 30-day rule doesn't apply)

18) Confirm the cost basis of your investments sold

19) Confirm the cost basis of your assets held at other advisory companies/brokers

20) Recalculate the cost basis of your inherited investments since they receive a special tax break called a step-up in basis

21) Hold your investments for at least 12 months before you sell to qualify for tax-free/reduced long-term capital gains taxes

22) Sell investments with *unrealized* capital losses and apply these losses against *realized* capital gains

23) Sell your worthless securities for $1 in order to claim the loss

24) Don't forget any capital loss carryovers from last year

25) Keep your house as your primary residence for at least 2 out of the last 5 years to qualify for the $250,000 ($500,00 if married) exclusion of capital gain

26) Gift appreciated property to older relatives/your children in a low tax bracket to generate tax-free capital gains

27) Gift dividend-paying stocks to older relatives/your children in a low tax bracket to generate this income tax-free

28) Consolidate your bank/investment accounts in order to reduce unnecessary paperwork/more efficient tax planning/fewer death certificates in the future

29) Review the benefits of a 1035 tax-free exchange

30) Review any bad debts that became worthless and see if you are eligible to take this loss as a deduction

31) Deduct entire loss of rental/business property rather than the maximum $3,000 capital loss deduction

32) Deduct up to $25,000 of losses from your rental real estate since you actively participate in its management

33) Talk to your realtor regarding the possibility of a 1031 exchange of your rental property

34) Consider selling appreciated property through an installment sale and spread out the income over a number of years

35) Establish an IRA-by April 15th of the following taxable year if you qualify and can take tax deduction

36) Establish a SEP and you can make the contribution up to the time you file your tax return

37) Maximize your contributions to your retirement accounts

38) Contribute to your 401(k) plan at least up to the matching employer contribution

39) Reduce your retirement plan distributions down to the RMD level

40) Elect the Substantially Equal Payments (rule 72t) to avoid the 10% penalty on early distributions from your retirement account

41) Re-check all of your cancelled checks/credit card statements/receipts for overlooked deductible expenses

42) Itemize your tax deductions by "bunching" your deductible expenses in one year

43) Bunch your medical expenses in one year in order to exceed the 10% AGI threshold and take the deduction

44) (If medical expenses exceed 10% of AGI): Recheck these expenses you may have overlooked, such as:
   a) Travel to/from doctor/hospital
   b) Nursing home costs
   c) Prescription expenses
   d) Medicare or Long-term care insurance premiums
   e) Therapy
   f) Braces or other dental work
   g) Miscellaneous improvements to your house for medical reasons
   h) Certain medical expenses paid for on behalf of your parents, children, or other dependents

45) Consider setting up a Health Savings Account (HSA)

46) Pay State estimated tax payment in December instead of January due date (if you are under the $10,000 federal limit)

47) Pay your entire property tax bill by the end of the year (if you are under the $10,000 limit)

48) Pay off your mortgage if you do not itemize

49) Refinance your mortgage

50) Donate appreciated securities directly to a charity and avoid capital gains

51) Donate appreciated long-term assets to a DAF (Donor – Advised Fund) Make non-cash charitable contributions up to $500 by cleaning out your garage and giving items to charity

52) Pay your investment advisory fees for your retirement accounts inside of the retirement accounts

53) Establish a 529 Plan for your children's/grandchild's college education

54) See if you are subject to Alternative Minimum Tax (AMT); investigate strategies you can take to avoid/reduce this tax

55) Recalculate your estimated tax and determine whether you can reduce your estimated tax payments

56) Offset your tax refund and apply to your first quarterly estimated tax payment

57) Elect income tax withholding from your IRA distributions to reduce estimated tax penalties

58) Consider the possibility of getting married and filing a joint tax return

59) Legally married same-sex couples are now considered married for federal tax purposes

60) Take 20% deduction on net income from your business/rental property

61) Consider replacing quarterly estimated tax payments by using federal and/or state withholdings directly from retirement accounts

62) **New Charitable Deduction**: Make sure you have at least a $300 ($600 for MFJ) cash (check) contribution to a qualified charity for the new above the line deduction (in case you do not itemize).

Estate Planning

Basic Estate Planning

1. Establish a will/revocable living trust/estate plan

2. Avoid probate/conservatorship by establishing a revocable living trust

3. Review your will/revocable living trust/estate plan due to/since:
   a) Many changes in the estate/inheritance tax laws
   b) To confirm that your estate planning documents are still valid and up-to-date
   c) A marriage/divorce/birth/adoption/death/other major changes in health of client or beneficiary
   d) Changes in income beneficiaries/remaindermen

e) Your move to another state
f) Estate/inheritance tax liability
g) Its complexity and is too confusing/overwhelming
h) The exemption trust is no longer necessary
i) It has been over three years since your last review
j) An inheritance

4. Confirm your assets are held properly in the name of your trust

5. Take your individual stock/bond certificates and transfer these income tax-free to a brokerage account in order to reduce unnecessary paperwork/headaches/death certificates in the future

6. Consolidate your various IRAs into one Self-Directed IRA to reduce unnecessary paperwork and RMD complications

7. Retitle assets held as joint tenants into the name of your living trust

8. Change title on appreciated property from joint/50% ownership to 100% ownership and receive a full step-up in basis

9. Think about gifting appreciated assets to your beneficiaries in 0% capital gains brackets to reduce your estate.

10. Establish a Community Property agreement (if married and living in a community property state) and receive a full step-up in basis on appreciated property

11. Establish a pre-nuptial/ post-nuptial agreement

12. Confirm that your ex-spouse has signed off on your retirement accounts

13. Be sure to use and update all necessary papers provided by retirement plan at work

14. ***SECURE* Act Planning**: Confirm that the beneficiaries of your retirement accounts are consistent with those identified in your estate plan

15. ***SECURE* Act Planning**: Confirm all accounts have contingent beneficiaries

16. Review beneficiaries of retirement accounts and possibly add "per stirpes" after their names

17. Consider putting restrictions in your estate plan because one of your heirs is too young/unable to handle wealth responsibly

18. Create a "Creditor Protection" trust for certain assets that specifies the conditions/requirements that the child must meet to gain access to the corpus and to reduce exposure to creditors, bankruptcy, accident or divorce

19. Establish a “Special Needs” trust for disabled beneficiaries

20. Don’t forget about prior gifts you have made to certain beneficiaries when you divide your assets

21. Confirm that the trustees/executors/beneficiaries of your trust/will are still appropriate

22. Consider appointing a new executor/conservator/trustee/administrator in order to have someone who is more responsible/business oriented/or because he/she is no longer a viable choice

23. Consider adding a corporate trustee as one of the successor/joint trustees in your trust

24. Appoint a legal guardian for the needs of your children

25. Consider amending your Medical Durable Powers of Attorney/Directives to Physician to comply with HIPAA laws

26. Prepare a living will and/or a Physician Orders for Life-Sustaining Treatment (POLST) documents

27. Prepare Durable Powers of Attorney for Health Care and for Property/Finance

28. Conduct a family meeting to discuss both financial matters and also to build stronger family cohesiveness

29. Write a “Letter of Instruction” that lists locations of various important documents or passwords and other personal requests/information not mentioned in your estate plan such as the family mission, vision and values

30. Discuss the details of your estate plan with your beneficiaries

31. Create a “Family Wealth Mission Statement” / “Family Love Letter” / Ethical Will/ Five Wishes that reviews your values and goals and outlines expectations and purpose of family wealth

32. Keep ALL legal documents in an easy-to-find place for use during an emergency

33. Establish a digital lockbox for storing documents

34. Compile and maintain a full list of accounts/passwords, sites, and access information for your heirs

35. Make annual gifts to any person up to $15,000 ($30,000 if married) without incurring gift taxes

36. Consider gifting up to five years of your annual allowance - $75,000 ($150,000 if married) per person – to a 529 College Savings plan

37. Sell assets that have gone down in value – they receive a step-down in basis!

38. Consolidate your brokerage accounts to reduce unnecessary paperwork and legal fees

39. Suggest to your parents that they have their estate plan reviewed in order to reduce unnecessary problems that *you* may encounter in the future

40. Consider impacts of the new laws regarding same-sex couples

Advanced Estate Planning

1. Consult a qualified tax attorney to address advanced estate planning alternatives and strategies

2. Calculate the estimated estate/inheritance/income tax liabilities

3. Review strategies to help reduce the new increased income tax on trusts and estates

4. Calculate the fair market value of the assets in the estate using the six month alternate valuation date because some may have decreased in value after the decedent passed

5. Confirm your estate has enough cash and liquid assets to pay taxes, debts, specific requests and other obligations

6. Compare your state inheritance tax rules with the federal estate tax rules

7. Consider the different estate/inheritance tax and income tax laws in the new state to which you are thinking about moving

8. Gift certain assets into an irrevocable trust in order to exclude these from your estate

9. Establish a Charitable Remainder Trust to avoid paying taxes on appreciated property and receive a tax deduction and reduce your estate taxes

10. Change beneficiary of retirement accounts to a Charitable Remainder Trust

11. Establish a "quiet trust" so the children won't know about their inheritance until a specific age

12. Confirm IRA Custodian will allow your specific requests and transactions

13. Change the title/beneficiaries of your life insurance policies in order to keep the death benefits outside of your estate

14. Gift your existing life insurance policies into an irrevocable life insurance trust (ILIT)

15. Consider purchasing a second-to-die life insurance policy to provide liquidity to pay for future estate/inheritance taxes

16. File a gift tax return even if no tax is due in order to start the three-year statute of limitations

17. Maximize your lifetime estate and gift tax credit

18. Make tuition payments directly to the school and medical payments directly to the hospital/medical facility in order to avoid the gift tax annual limit rules

19. Spend part of your kid's inheritance – Remember: you can't take it with you!

Estate Planning After Death

1. Meet with your attorney to discuss legal and tax issues
2. Establish an Inherited IRA (10-year maximum life)
3. Compute new cost basis using the step-up in basis rules
4. Confirm non-retirement accounts have been changed to reflect the new cost basis.
5. Confirm step-up in basis rules have been applied to inherited assets
6. Update Estate Plan
7. Confirm assets have been retitled to the beneficiaries
8. Contact CPA regarding tax consequences of inheriting various assets
9. Remember that retirement accounts you inherit as a beneficiary are taxable to you - most non-retirement inherited assets are usually non-taxable
10. Notify the U.S. Social Security Administration to receive any benefits to which you are eligible
11. Contact all income sources about your spouse's death
12. Confirm which specific assets will be inherited by each beneficiary
13. Investigate any life insurance benefits
14. Review cash flow requirements for possible estate/inheritance/income tax liability
15. Elect portability of the estate tax exemption
16. Investigate the possibility of disclaiming an inheritance

Retirement Income Planning

1) Create a plan to provide a predictable, sustainable and increasing stream of income that will keep pace with inflation for the rest of your life

2) Prepare a Cash Flow Analysis/Budget/Retirement Income Report

3) Track your cash flow for at least a few months to see where your money is going

4) Establish a "Cash Reservoir System"

5) Think about what major life changes you see in the next 5 years

6) Try to anticipate what you would like your ideal future to look like 10 years from now

7) Compare your current expenses with estimated expenses during retirement

8) Estimate how much money you need to accumulate to retire

9) Review various alternatives to help increase your income such as:

    a. Work part or full time

    b. Consider activities that interest you and try to earn additional income doing/teaching these activities

    c. Work part-time as a consultant in your field

    d. Invest in an immediate annuity

    e. Sell appreciated property through an installment sale

10) Plan for the possibility of elevated health costs

11) Review specific expenses that look high and consider reducing these expenses to a more reasonable amount

12) Consider selling your house and buying a less expensive house and taking the proceeds and investing this for retirement

13) Consider utilizing a reverse mortgage to utilize the equity of your house, not have to move, and receive proceeds tax-free

14) Investigate different investment choices that generate more income

15) Increase your contributions to your retirement plan with each raise and bonus

16) Maximize your contributions to your 401(k) plan

17) Consider delaying Social Security benefits until age 70

18) Dedicate a pool of assets for each goal or objective such as:

    a. Lifetime income

    b. Medical expenses

    c. Travel/hobby expenses

    d. Education costs

19) Calculate whether it is best to take a lump sum or annuity from your pension plan

20) Compare the various payout alternatives you have available from your company pension plan

21) Compare various pension options offered by your company to the other annuity choices outside of your company

22) Maximize Tax Efficiency when withdrawing money from any retirement plan

23) Consider moving to a less expensive State

24) Review expenses paid for a dependent

25) Consider delaying IRA distributions until age 72

26) ***SECURE* Act Planning:** Coordinate Retirement Income planning with retirement plan drawdowns

Investment Planning

1) Review current investments. (**FOR A PROSPECT ONLY**!)

2) Rebalance your portfolio if your asset mix is not commensurate with your risk tolerance level

3) Reposition investments within your IRA to match current risk tolerance without having to pay income taxes

4) Consider increasing your risk level in order to achieve a potentially better rate of return

5) (If your investments are too concentrated): Diversify into more investment sectors to reduce your risk

6) Confirm that you can emotionally handle the volatility of the stock market

7) Invest taking a long-term perspective rather than a short-term perspective

8) Compare rates of return after all expenses have been deducted

9) Confirm your emergency fund is adequate

10) Invest money currently in bank account

11) Liquidate CDs as they mature and invest proceeds

12) Reduce the duration in your bond portfolio

13) Reduce your exposure in high yield bonds

14) Establish a 529 plan for your children/grandchildren

15) Consolidate your investment/bank accounts to reduce unnecessary paperwork and reduce taxes

16) Transfer your existing brokerage accounts/stocks into one account "in kind" – there will be no cost or tax consequence because nothing is being sold

17) Determine who will handle your investments in the future

18) Consider tax-free bonds instead of taxable bonds

19) Compare after-tax returns on investments

20) Rebalance your investments inside of your 401(k) plan

Insurance

1) Review your insurance policies with your agent at least once every three years

2) Confirm that your insurance companies are highly rated – "Never outlive your insurance company!"

3) Review your homeowner's and automobile insurance policies and confirm your coverage and deductibles are appropriate

4) Purchase/increase a personal umbrella policy (or increase to maximum coverage – usually $3,000,000)

5) Investigate Long Term Care/ Medicare Supplement Insurance

6) Increase your deductible or reduce/eliminate certain benefits in order to help reduce the cost for a long-term care insurance policy

7) Confirm your life/disability insurance coverage is adequate/necessary for your current financial situation

8) Do not reduce benefits of existing insurance policies if you are in poor health

9) Confirm the ownership and beneficiaries of your life insurance policies are titled properly

10) Fund your buy-sell agreement with appropriate amount of life and disability insurance

11) Consider purchasing additional insurance to cover hurricane/special needs

12) Review insurance coverage on beneficiaries