WEALTHPOINT
INVESTMENT MANAGEMENT

How to Optimize Your Finances After a Banner Year

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Are you in a field in which your income fluctuates from year to year? Business owners, sales professionals, and many others experience the ups and downs of income from one year to the next. We all know that it's easy to get behind in a down year, but it's just as easy to make a significant impact on your financial future after a big year. The difference between always struggling to get by and finding true financial freedom depends on the way you take action after a banner year.

Many investors are relieved after a banner year, but fail to take advantage of the opportunity to get ahead and bolster their financial plan. Recently, a good friend had a banner year as a sales professional and, realizing it was not a typical year, he called me to discuss what he should do with the "extra money" he had made.

At WealthPoint Investment Management, we use a disciplined wealth management process to make decisions that seek to improve your overall financial plan. The process includes the following steps:

- Understanding your current financial situation
- Prioritizing items that need immediate attention
- Implementing a strategy that makes the best use of extra cash
- Using tax efficient strategies and investments
- Reviewing the plan annually and adjusting

Case Study #1

Using a Banner Year to Pursue Early Retirement

I recently helped advise one client who had experienced a banner year. He is a 40-year-old sales rep who is also a husband and father of two children. He was thankful to have earned a large bonus and he and his wife wanted to use it wisely.

We did a review to get a snapshot of where they were financially and then brainstormed and prioritized some different ideas they had. It was their goal to get the most bang for their buck to get ahead financially.

At the end of the analysis, they chose to fully fund his retirement for the previous year and the current year to catch up. They also doubled the amount in their kids' college savings plan. They then chose to add to their taxable retirement account with a goal of retiring before age 59 ½.

Lastly, we fully funded an emergency fund totaling 20% of his salary.

Case Study #2

Finding Financial Freedom After a Banner Year

Another client, who is a 60-year-old business owner with a family, was grateful to have had the best business year of his career. Because his firm had performed so well, he wondered if it may be a good time to sell the business and retire. But he wasn't sure if he had enough to live comfortably and maintain his family's lifestyle.

We worked together to analyze their current situation and determine how much they would need to fund a comfortable retirement and plan for unexpected expenses. We worked with a local merger and acquisition team to get a reliable value of the company and come up with an asking price.

Once the analysis was complete, we had determined that the estimated value he would receive from the sale of his company would provide more than enough to fund his retirement at his family's current lifestyle. He sold his firm, began planning his retirement party, and was able to give away a large sum to his favorite charity. He also established a trust for his children. With the right planning and analysis, he was able to use his banner year to pursue true financial freedom.

Case Study #3

Catching Up After a Banner Year

A friend of mine is 38 years old, with a heavily weighted commission-based job. He was stressed about his neglected financial plan and wanted to get back on track after a banner sales year. He came to me for some advice on the best way to catch up and get to a healthy financial position for the future.

The first thing we did was determine how far behind he and his wife were in their retirement savings, insurance planning (in case something were to happen to him), and their 529 plans for their two children.

To address his retirement plan, we readjusted the percentage of his paycheck going into his 401(k), above and beyond his employer match. He learned that he could put much more into his retirement plan before he hit the IRS limit, which is $18,000 for 2016.

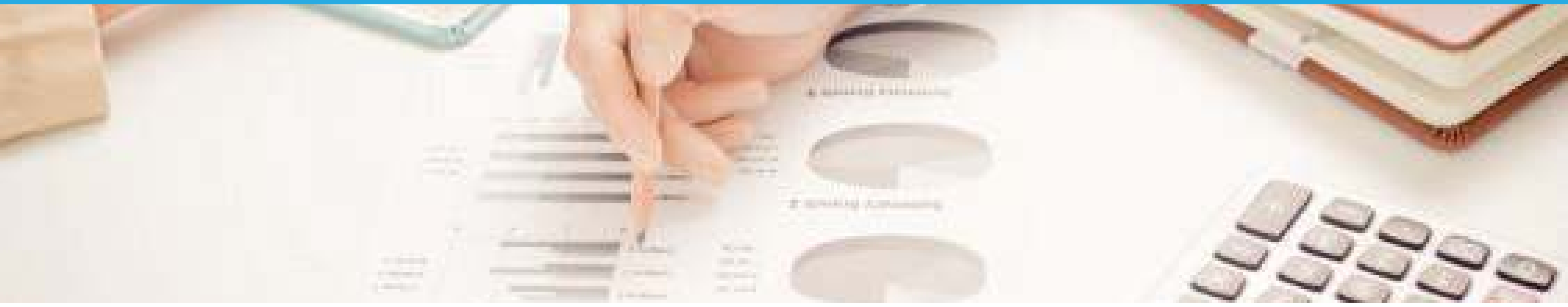
Then, we reallocated his portfolio inside his 401(k) to create an appropriate diversification. He had accumulated a rather large position in his company's stock, which was causing him anxiety as the company went through some volatility. With more diversification, he lowered the day-to-day volatility of his account and his risk exposure to his current company.

His wife had become concerned that if something were to happen to her husband that she and the kids would be in serious financial trouble with credit cards, a large mortgage, and no earned income. We determined the amount of term life insurance we would need to pay off their debt, the mortgage, and give them enough to pay for daycare if she were to need to go back to work.

Next, we put a lump sum into each child's 529 plan. Then, we were able to lower the monthly amount that they would need to contribute each month to stay on track. Lastly, as I always like to encourage, we started an emergency fund of about 20% of his annual salary.

Seven Financial Steps to Take After Your Banner Year

Whether you've had a banner year or are expecting some extra income, it's important to have a plan ahead of time to make the most of your opportunity. Here are seven steps to help your finances after a banner year.



1. Get the Money Out of Your Checking Account

Inaction is the most common response after a banner year. Many people leave the extra money in their checking account, only to be slowly depleted by purchases and spending. Before you do anything else, put the money out of sight and out of mind until you have a concrete plan.

That means moving the funds out of your checking account and into your savings account. Consider using an online savings account that pays higher than average interest rates and requires 2-3 days notice to withdraw the money to help you avoid any impulse purchases.

2. Pay Off Bad Debt

Now that your money isn't burning a hole in your pocket, the next step is to figure out how best to use it. Personal loans, private student loans, car loans, and credit card debt have high-interest rates, which means you should keep them at zero whenever possible.

Your first priority should be to take your bonus and pay off any outstanding debt you have. Taking this action will give you a guaranteed return equal to the associated interest rate. Make a list of all your debts, the balance, and the associated interest rates. Pay off the balances with the highest interest rates first until you have no remaining high-interest debt.

3. Save for Emergencies and Retirement

If you have funds remaining, split them toward your next two financial priorities: having six months of expenses in an emergency savings account and maxing out your retirement contribution for the year.

You can contribute towards your retirement using your bonus cash in a few different ways. Many companies will automatically deduct money from a bonus to your 401(k) at the same rate as usual. You can also ask your company to do a special withholding for your bonus. You'll fill out a form to designate up to 100% of your bonus to your 401(k). I recommend saving at least 20% of your bonus towards retirement if your retirement is not fully funded.

This will not only get you closer to a great retirement, but it will help you save big on this year's tax bill. If you can't direct your money to your 401(k) and you're eligible for an IRA, max out your IRA for the year. The 2016 limit for IRA contributions is $5,500, with an additional $1,000 allowed if you are over age 50.

Your overall retirement plan should depend on how much you have saved already, your current age, and when you plan to retire. To see if you're on track for retirement, meet with me to review your specific circumstances.

If you're financially healthy in these areas and have some of your bonus left, congratulations! You can move on to step four.

4. Have Some Fun!

After working hard all year, you deserve a reward. I recommend spending up to 20% of your overall bonus in pursuit of relaxation or fun. But before you spend money on any luxuries, consider what will make you the happiest.

Research shows that experiences tend to make us happier than purchases. In fact, purchases of clothes and home remodels tend to give us the least sustained happiness. If you've been itching for a trip to Europe or to go skydiving, give yourself permission to splurge.

It may be counter-intuitive, but buying several smaller luxuries may add up to more happiness than one large purchase. Because we tend to adapt to our environments quickly, the thrill of a new sports car can wear off within a month. However, a monthly massage or weekend getaway with your spouse is the gift that keeps on giving.

5. Pay Down Your Good Debt

If you really want to get ahead, take the next step and pay down your "good" debts. This means the lower interest rate debt like your mortgage. If you have private mortgage insurance, paying down your mortgage to 80% of your loan value may allow you to remove your monthly insurance payments for good.

A lump sum contribution could reduce how much interest you pay over time, bring the mortgage down to a level where you can refinance it, or drop it from a jumbo loan to a conforming loan, which would drastically lower your monthly payments. If you have good debt, allocate what you have left to paying it down faster so that you can save on interest and other costs.

6. Get Ahead

If your cash has all been allocated by this point, you've still made great progress, so don't despair. But there are many other things you can do if you're still flush with cash. If you have children, starting a college savings fund is a great next step. You can contribute a lump sum of $14,000 per year per child before you have to pay gift taxes. Then, you can set up monthly contributions going forward.

If you don’t have children or their college savings plan is on track, start saving for a longer-term goal, such as a vacation home or starting your own business. Take advantage of online savings accounts like Ally.com that pay high yields and allow you to name each account for your specific goal.

It also pays to look ahead to the next year and think about any large expenses coming in. Is your refrigerator or water heater about to die? Perhaps you need dental work. Set aside money for those large, irregular expenses so you don’t stress when they come.

7. Give to a Charity

Not only does giving to your favorite charity make you feel great, you’ll also get a tax deduction for your donation. Be sure to document your gift and keep your receipt. Check with your accountant first to make sure your deduction will qualify.

If you've had a banner year, more than likely it's because you've worked hard. You owe it to yourself to make the most of your extra funds and pursue what will make you the happiest in the long run. Before you act, be sure to think through any decisions and work with a qualified financial professional to take advantage of all of your options.

I welcome the opportunity to meet with you and see how I may be able to help you make the most of your banner year. To learn more or schedule an appointment, contact me today at
(601) 790-9279 or info@wealthpointinvestment.com.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

About Paul

Paul Loyacono is the founder and managing director of WealthPoint Investment Management with more than a decade of experience in the financial services industry. Working with a diverse range of clients, he is passionate about the opportunity his career offers him to make a positive impact on people's lives. He feels it is important to include clients in the planning process and for clients to be an active participant in their financial future.

Paul started his career in the insurance industry, working with Citigroup. He quickly realized that many of his clients also needed assistance with their finances and investments. To assist them with all of their financial strategy needs, he became a financial advisor. Over the course of several years, he worked with large, national firms, including Wells Fargo and Merrill Lynch, and a private firm, Stephens, Inc. With a desire to focus more on his clients' needs and serve them objectively, he founded WealthPoint Investment Management and joined independent broker-dealer LPL Financial, one of the leading financial services companies and the largest independent broker/dealer in the nation.*

Paul holds FINRA Series 6, 7, 31, and 63 registrations through LPL Financial, and holds FINRA Series 66 registration through IFG Advisory, LLC and LPL Financial. He also holds life and variable annuity insurance licenses. Born and raised in Vicksburg, he enjoys working with the good people in Mississippi, as well as throughout the South. He enjoys spending time with his wife, Kati, and their three daughters. When he isn't working with clients, he spends much of his time outdoors, whether he's golfing, playing tennis, or duck hunting.

*As reported in Financial Planning magazine 1996-2016, based on total revenues.

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