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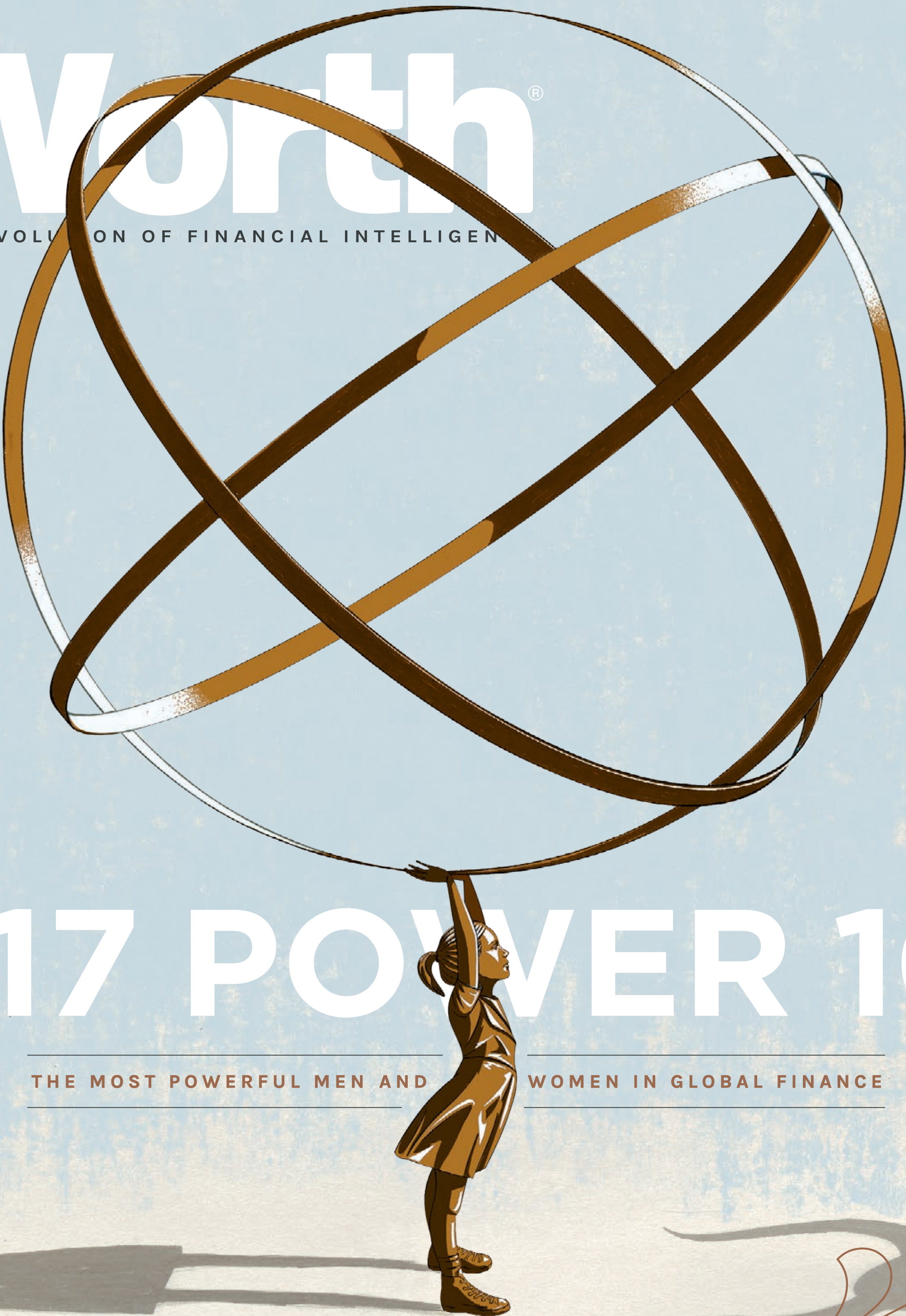

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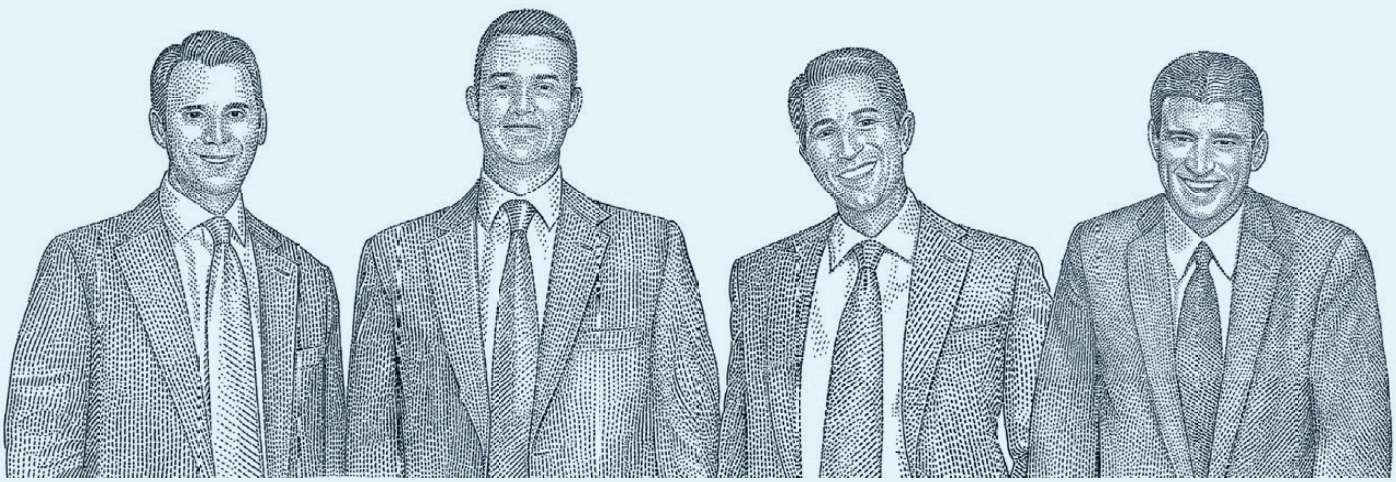
VOLUME 26 | EDITION 04

What are the "12 Pillars" of financial planning?

BY JAMES L. DINARDO



Left to right: *Kevin R. Luchetta, Paul D. Tortorella, Stephen A. Schwartz, James L. DiNardo*

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FINANCIAL SERVICES EXPERIENCE

Kevin, 21 years
Stephen, 18 years
James, 17 years

ASSETS UNDER MANAGEMENT

$1+ billion

COMPENSATION METHOD

Asset-based fees and commissions (investment and insurance products)

PRIMARY CUSTODIAN FOR INVESTOR ASSETS

Accounts held at Northwestern Mutual Investment Services LLC, an introducing broker-dealer, member FINRA, SIPC. Accounts carried, and all transactions executed, cleared and settled through Pershing, A BNY Mellon Company. Member FINRA, NYSE and SIPC.

PROFESSIONAL SERVICES PROVIDED

Financial planning, investment-advisory, risk-management and money-management services

MINIMUM FEE FOR INITIAL MEETING

None required

MINIMUM NET WORTH REQUIREMENT

$1 million

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ILLUSTRATION BY KEVIN SPROULS

Financial planning is complicated, but a good financial advisor with a great team can help make the complicated simple. Below, we've compiled what we consider to be the *12 financial-planning rules* clients should focus on.

1. Know your *burn*: In a previous *Worth* article, we discussed the equation: gross income – taxes – expenses (we refer to this as the burn) = savings. Your family's own particular burn lies at the heart of a number of important planning decisions, so knowing this number will help you and your team best analyze your financial picture.

2. Emergency cash: We recommend that you have six to 12 months of your burn available, held in cash or a cash equivalent. The cash value of life insurance contracts constitutes an excellent tax-advantaged emergency source of funds, after you've paid approximately 10 years of premium.[1]

3. Risk management: Have enough assets plus insurance to replicate your burn. Without proper insurance coverage, unexpected events can quickly derail a financial plan. Make sure you have the proper amount of insurance for life, "own occupation" disability, long-term care and liability.

4. Real estate allocation: A simple rule of thumb is that the value of a personal residence should not exceed 35 percent of your balance sheet, and your mortgage plus property tax payments should not exceed 35 percent of your base salary.

5. Financial independence: Know how much money you need to save in order to cover your desired retirement lifestyle (i.e., the burn in retirement). Then figure out how far you still have to go, and design a savings strategy that will close your gap.

> Adhering to a financial plan is not only valuable financially but allows you to focus on the activities that are most important to you.

6. Tax-balanced balance sheet: No one knows where tax rates are going, so we suggest diversifying your balance sheet from a tax perspective. Know your federal and state pre-tax options and leverage tax-advantaged savings vehicles. During your retirement income-distribution years, maintain your ability to withdraw from after-tax and pre-tax accounts.

7. Education savings: Decide what level of educational support you'd like to provide your children, and implement a monthly savings strategy to achieve that goal. Consider diversifying between a tax-advantaged 529 plan and a more flexible savings bucket.

8. Asset allocation: Translate your risk tolerance into an asset allocation, and figure out how such an asset allocation reacts relative to the popular benchmarks.

9. Rebalancing strategy: When left to their own devices, people tend to react emotionally to changes in the market. An advisor's team can help remove the emotion from the equation by developing a consistent rebalancing strategy.

10. Retirement income distribution: Please refer to our article in *Worth*'s 45th edition for more detail, but having a plan for retirement income distribution is critical. We've observed that many clients have a plan for the wealth-accumulation years, but lack the other necessary piece: a clear plan for the retirement income-distribution years.

11. Trust history: Do not let a bear market scare you away from equities.[2] Making sure you have the proper emergency cash (see No. 2 above) is critical to investing in equities.

12. Estate planning: Review trust and estate documents such as wills every five years or so. If you are concerned that the value of your estate might exceed the exemption amount at the time of your death, speak with your attorney or accountant about strategies to help mitigate estate-tax impact.

These are the factors you should review when measuring an advisor's value and fees. Following a financial plan is valuable financially and allows you to focus on the activities that are most important to you. ●

ABOUT US

PIONEER FINANCIAL AT NORTHWESTERN MUTUAL PROVIDES FINANCIAL SERVICES TO HIGH NET WORTH AND EMERGING HIGH NET WORTH INDIVIDUALS, FAMILIES AND BUSINESS ENTERPRISES. Pioneer Financial's team of 17 associates/staff serve clients nationwide from their Park Avenue office in New York City. Kevin R. Luchetta, Stephen A. Schwartz and James L. DiNardo are wealth-management advisors and CERTIFIED FINANCIAL PLANNER™ practitioners. The practice is focused on assisting clients through comprehensive financial planning that includes asset management, retirement funding, risk management, estate preservation and distribution. ●

[1] Each method of utilizing your policy's cash value has advantages and disadvantages and is subject to different tax consequences. Surrenders of, withdrawals from and loans against a policy will reduce the policy's cash surrender value and death benefit and may also affect any dividends paid on the policy. As a general rule, surrenders and withdrawals are taxable to the extent they exceed the cost basis of the policy, while loans are not taxable when taken. Policyowners should consult with their tax advisors about the potential impact of any surrenders, withdrawals or loans.

[2] Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

**This publication is not intended as legal or tax advice. Financial representatives do not give legal or tax advice. Taxpayers should seek advice based on their particular circumstances from an independent tax advisor. All investments carry some level of risk including the potential loss of principal invested. No investment strategy can guarantee a profit or protect against loss.*

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