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A Recipe for Financial Success

As I thumbed through my recipes this past weekend, a thought occurred to me. Why does financial planning need to be so convoluted and complicated? Why can't it be as simple as my mom's recipe for homemade potato salad? Why can't it be summarized in simple, easy to follow steps? So, that is how this recipe came about. I hope you enjoy it.

RECIPE FOR FINANCIAL SUCCESS

1. Mix 10-20% of your annual salary into a retirement plan. (Save 10% for basic needs, 15% for comfort, or 20% to escape). Begin saving young. For every decade you delay, you will need to save twice as much.
2. Pour into the market by using automatic deposits. Mix in quality mutual funds with low expense ratios. Blend until you have a well-diversified portfolio.
3. Simmer. Turn down the heat as you approach retirement age. Rebalance portfolio when necessary. Do not withdraw or borrow from your retirement account during working years.
4. While pot simmers:
 - a. Live within your means. Do not use credit cards to bridge the gap.
 - b. Keep debt within reason. If you go to college, don't borrow more than what you would expect to make the first year out of school. If you purchase a home, do not borrow more than you could afford with a 30-year fixed rate mortgage. Develop a plan to have all debt paid off by the time you retire.
 - c. Maintain an emergency fund equal to 3-6 months of your expenses. Keep the emergency fund in cash, money market accounts or certificate of deposits.
 - d. Insure catastrophic expenses, not things that you can cover out of your pocket.
 - e. Protect your family. While young, purchase life insurance equivalent to 5-10 times your salary. Work with an attorney to draft a Will, trust, medical power of attorney and durable powers of attorney.

Spice with good health, a zest for life and a sense of humor.

After retirement, serve in small chunks equivalent to 3-4% of the annual retirement account balance.