



## **EDUCATIONAL BENEFITS GROUP**

**Providing solutions to make college an affordable reality**

---

# **Cash Flow Planning for College & Retirement**

# Table of Contents

## Cash Flow Planning for College & Retirement

Introduction	1
Cash Flow Planning vs. Budgeting	2
Assets & Liabilities	2
Parents' & Student's Assets Worksheet	3
➤ Parents' Worksheet	4
➤ Student's Worksheet	6
Parents' & Student's Liabilities Worksheet	7
➤ Parents' Worksheet	8
➤ Student's Worksheet	9
Household Expenditure Worksheet	10
➤ Household Expenditure Worksheet	11

# CASH FLOW PLANNING FOR COLLEGE & RETIREMENT

## INTRODUCTION

Prior to developing a strategic cash flow plan for college and retirement, it is highly recommended that you talk to other parents and students that are currently going through the pains of paying for college. First hand experience is the best way for you to thoroughly understand the heartaches and frustrations that other families have faced, or are currently facing.

The first step in the cash flow planning process is to get an overall view of your household's current financial picture. Regardless of whether your student is 15 years away from college, or presently in college, if you're not exactly sure where you stand financially today, how can you expect to reach your future financial goals?

### EVERYONE NEEDS TO ANSWER TWO SIMPLE QUESTIONS:

- Would you purchase a large ticket item, like a car or home, without knowing whether or not you can afford the cost in your household budget?
- Would you decide to take a vacation without planning where to go, or whether you could afford the trip?

The assumption is that most families would answer **NO** to the above two questions. You would never buy a car or home without looking at your budget and spendable income. No family would go on long vacation without knowing where they wanted to go and how they were going to pay for it.

However, most families wait until the very last minute to figure how they will pay for a college education, an education that will cost anywhere between \$50,000 and 160,000, over a four-year period.

Families must develop a financial game plan to reach their goal of saving and paying for college. They should calculate their income and assets, their liabilities, and their tax status; as well as understand where they are spending their money.

This financial data will also be used by the federal and state governments, the colleges, and other financial aid sources, to evaluate the family's financial aid need. This data is required information on the standard federal financial aid form, known as the Free Application for Student Aid, or FAFSA. It can also be used for the CSS Profile, a financial aid form used by some elite colleges to distribute their own pool of money for financial aid. This financial data gathering is an important first step to qualifying for financial aid. Remember: if you don't apply, you won't qualify.

The financial data that you need to organize to develop a cash flow plan is as follows:

- 1) The previous year's federal, state, and local income tax returns
- 2) The previous year's W-2 forms and miscellaneous income records
- 3) Records of untaxed income
- 4) Current bank statements
- 5) Current mortgage information
- 6) Business and farm records
- 7) Records of stocks, bonds, and other investments
- 8) Promissory notes (mortgage) or loans statements
- 9) Credit card statements
- 10) A list of all your household (spending) expenditures

Once you have organized this information, you will need to list your spendable "take home pay" and your household expenditures on a cash flow sheet.

### **CASH FLOW PLANNING vs. BUDGETING**

The difference between budgeting and cash flow planning is that a budget is a regimented spending plan, or a spending allowance that can change your lifestyle. Cash flow planning adjusts your current spending habits in order to continue your present financial lifestyle.

**Example of cash flow planning:** Look at your last year's income tax returns. You may find out that you over paid your taxes by \$1,500. This is equal to \$125 a month more taxes than you actually owed. Then look at other items like what you normally spend on groceries. Let's say you spend \$500 on groceries a month. Look and see what you normally purchase, such as, meat, milk, sundries, cookies, household cleaners, and other sundry items. What would happen if one month you only spent \$450 for groceries? Would your family eat any less? They may not even notice. Then the following month you can spend \$500 for groceries, but make other adjustments to come up with the \$50 such as, instead of eating out every weekend, eat out only two weekends of the month. During the two weekends you give up, rent a movie and stay at home. Then the next month you can go back to eating out each weekend and cut back other areas for that month.

Are you starting to get the picture? A hard-core budget could have a detrimental affect on you when you start to completely eliminate the things you enjoy in life.

### **ASSETS vs. LIABILITIES**

The next thing you need to do is list your assets and debt on an asset and liability sheet. This will demonstrate how much you're worth and what you can change to increase your net worth. If you currently maintain credit card debt, then there may be opportunities to adjust your cash flow position to pay your credit cards off early and eliminate the high interest finance charges.

If you have considerable debt, you should pay off some of this debt, prior to developing any kind of an investment plan. It is recommended that you pick the smallest debt to pay off first and pay the minimum payments on your other debts. You may ask yourself, "Wouldn't it make more sense to first pay off the debt with the highest interest rate?" **The answer is NO.** You need to be motivated to continue your debt liquidation program and by paying off the smallest debt first, you will see results a lot quicker and it will motivate you to continue to reduce your debt. You should continue this debt reduction process until you have eliminated all your high-cost debt,

like credit cards, cars and personal loans, leaving only the mortgage on your home.

Once this high-cost debt is paid off, the next step in the planning process is to take the extra monthly cash flow and map out a game plan to invest this money. The first place you should look to is your retirement plan. Contribute as much as you can into your retirement program. Why should you fund your retirement first and not your children's college education?

- You can't borrow for retirement
- You can't use the child's income for retirement
- You can't use scholarships for retirement

Even though paying for a college education is very important, it is second to retirement. Parents must realize they are not getting any younger and that their retirement should be their utmost financial goal. By managing your money correctly and controlling your spending, you will have enough money to accomplish your retirement goals, as well as help pay for your child's college education.

## **PARENT & STUDENT ASSETS WORKSHEET**

To begin your family cash flow plan you need to have an idea of what you own (assets). Please list both the parent and student assets on the following worksheets:

# PARENTS' ASSETS WORKSHEET

Parents Names \_\_\_\_\_

<b>Cash in Checking/Brokerage Accounts</b>	\$ _____
<b>Money Market Funds/Accounts</b>	\$ _____
<b>Fixed Income Investments</b>	
Savings	\$ _____
CDs	\$ _____
Government Securities/Funds	\$ _____
Mortgage-Backed Securities	\$ _____
Corporate Bond/Bond Funds	\$ _____
<b>Municipal Bonds/Bond Funds</b>	\$ _____
Other	\$ _____
<b>Stock Investments</b>	
Common Stock	\$ _____
Stock Mutual Funds	\$ _____
Other	\$ _____
<b>Real Estate Investments</b>	
Undeveloped Land	\$ _____
Rental Real Estate	\$ _____
Real Estate Limited Partnerships	\$ _____
Real Estate Investment Trusts (REITS)	\$ _____
<b>Ownership Interest in Private Business</b>	\$ _____
<b>Cash Value of Life Insurance</b>	\$ _____
<b>Retirement-Oriented Assets</b>	
IRAs	\$ _____
401K Plans	\$ _____
Keogh Plans	\$ _____
Simplified Employee Pension Plan	\$ _____
Vested Interest in Corporate Pension	
and profit-sharing Plan	\$ _____
Employee Thrift and Stock Purchases	\$ _____
Tax Deferred Annuities	\$ _____
Deferred Compensation Vested Value	\$ _____
Reverse Split Dollar Life Cash Value	\$ _____
Other	\$ _____
<b>Personal Assets</b>	
Residences	\$ _____
Second/Vacation Home	\$ _____
Boat	\$ _____
Recreational Vehicle	\$ _____
Automobiles	\$ _____
Jewelry	\$ _____

Personal Property (Normally 40% of home value)	\$ _____
<b>Other Assets</b>	
Trust Accounts	\$ _____
Other	\$ _____
<b>Total Assets:</b>	<b>\$ _____</b>

# STUDENT'S ASSETS WORKSHEET

Student's Name \_\_\_\_\_

<b>Cash in Checking/Brokerage Accounts</b>	\$ _____
<b>Money Market Funds/Accounts</b>	\$ _____
<b>Fixed Income Investments</b>	
Savings	\$ _____
CDs	\$ _____
Government Securities/Funds	\$ _____
Mortgage Backed Securities	\$ _____
Corporate Bond/Bond Funds	\$ _____
Municipal Bonds/Bond Funds	\$ _____
Other	\$ _____
<b>Stock Investments</b>	
Common Stock	\$ _____
Stock Mutual Funds	\$ _____
Other	\$ _____
<b>Real Estate Investments</b>	
Undeveloped Land	\$ _____
Rental Real Estate	\$ _____
Real Estate Limited Partnerships	\$ _____
Real Estate Investment Trusts (REITs)	\$ _____
<b>Ownership Interest in Private Business</b>	\$ _____
<b>Cash Value of Life Insurance</b>	\$ _____
<b>Retirement Oriented Assets</b>	
IRAs	\$ _____
Tax Deferred Annuities	\$ _____
Other	\$ _____
<b>Personal Assets</b>	
Automobiles	\$ _____
Motorcycles	\$ _____
Personal Property	\$ _____
<b>Other Assets</b>	
	\$ _____
	\$ _____
	\$ _____
<b>TOTAL ASSETS:</b>	\$ _____



## PARENT & STUDENT LIABILITIES WORKSHEET

### Assets - Liabilities = Net Worth

Once you've calculated your assets you will know how much you **own**. Now you need to also calculate how much you **owe**. Subtracting how much you owe from what you own will determine your net worth. Your net worth can then be used to determine approximately how much you can afford to contribute to your children's college education.

The following Parent & Student Liabilities Worksheets are designed to give you a picture of your debt position. Believe it or not, there is good debt and bad debt and most families do not understand that concept.

A home equity loan is considered good debt, because homes appreciate in value and provide their owners with a tax deduction. On the other hand, credit card debt is considered bad debt because you are paying high interest rate finance charges for the privilege of using the credit card. Therefore, if you carry a balance on your credit cards, you're actually paying more than the retail value for the goods you purchased.

The data from the following liability worksheets will allow you to review your current debt situation. Please list both the parent and student liabilities below:

## PARENTS' LIABILITIES WORKSHEET

Parents' Names \_\_\_\_\_

Credit Card Balances	\$ _____
Income Tax Payable But Not Yet Paid	\$ _____
Miscellaneous Accounts Payable (Including personal loans to other individuals)	\$ _____
Personal Bank Loans	\$ _____
Loans Against Life Insurance Policies	\$ _____
Loans Against 401K Pension Funds	\$ _____
Automobile Loans	\$ _____
Student Loans (parents only, i.e., Plus Loan, etc.)	\$ _____
Mortgage on Primary Residence	\$ _____
Second Mortgage on Primary Residence Or Equity Line of Credit Debt	\$ _____
Mortgage on Second Home or Houseboat on Equity Line of Credit	\$ _____
First Mortgage on Rental Real Estate	\$ _____
Second Mortgage or Equity Line of Credit On Rental Real Estate	\$ _____
Bank Loans on Boat and RVs (Other than houseboat)	\$ _____
Broker's Margin Loans	\$ _____
Limited Partnership Debts	\$ _____
Loan from Employer	\$ _____
Other Liabilities	\$ _____
	\$ _____
	\$ _____
	\$ _____
<b>TOTAL LIABILITIES:</b>	<b>\$ _____</b>

## STUDENT'S LIABILITIES WORKSHEET

Student's Name \_\_\_\_\_

Credit Card Balances	\$ _____
Income Tax Payable But Not Yet Paid	\$ _____
Miscellaneous Accounts Payable	\$ _____
Personal Bank Loans	\$ _____
Loans Against Life Insurance Policies	\$ _____
Automobile and Motorcycle Loans	\$ _____
Student Loans (student only, i.e., Stafford Loan, Perkins Loan, SLS Loan, etc.)	\$ _____
Mortgage on Rental Property	\$ _____
Broker's Margin Loans	\$ _____
Limited Partnership Debts	\$ _____
Personal Loans to Individuals	\$ _____
Other Liabilities	\$ _____
	\$ _____
	\$ _____
	\$ _____
<b>TOTAL LIABILITIES:</b>	\$ _____

## **HOUSEHOLD EXPENDITURES WORKSHEET**

Most families do not keep track of how they spend their money on a monthly basis, and therefore, their spending controls them.

The following Household Expenditures Worksheet allows you take control of your spending by documenting exactly where your money is being spent. Most families cringe at the thought of documenting all their household expenditures. However, once you recognize your bad spending habits, then you can take the necessary steps to adjust your spending in a positive direction.

If you take the time to complete the following Household Expenditures Worksheet, you may be astounded to find that a few simple adjustments in your monthly spending habits can dramatically increase your cash flow for college and retirement, without changing your present lifestyle. Please list the family's household expenditures on the following worksheets:

# HOUSEHOLD EXPENDITURES WORKSHEET

Parents Names \_\_\_\_\_

First Mortgage (primary residence)	\$ _____
Second Mortgage (primary residence)	\$ _____
Equity Line of Credit on Primary Residence	\$ _____
First Mortgage (second home)	\$ _____
Second Mortgage (second home)	\$ _____
Equity Line of Credit on Second Home	\$ _____
Total Property Taxes	\$ _____
Rent	\$ _____
Homeowner's/Renter's Insurance	\$ _____
Utilities	\$ _____
Telephone	\$ _____
Trash	\$ _____
Water	\$ _____
Sewer	\$ _____
Home Repair	\$ _____
Personal Loans	\$ _____
Cable TV	\$ _____
Auto, Boat, RV Payments	\$ _____
Gas, Oil, Tire, ETC	\$ _____
Auto, Boat, RV Maintenance	\$ _____
Auto, Boat, RV Insurance	\$ _____
Auto, Boat, RV License(s)	\$ _____
Sundries	\$ _____
Groceries	\$ _____
Clothing	\$ _____
Dry Cleaning	\$ _____
School Related Expenses (Books, supplies, clothing)	\$ _____
**Long Term Investments	\$ _____
School Tuition, Fees, Room & Board	\$ _____
Medical/Dental Deductibles & Co-Pays	\$ _____
Drugs/Medical Supplies	\$ _____
*Health Insurance	\$ _____
*Disability Insurance	\$ _____
*Life Insurance	\$ _____
Church Donations	\$ _____
Charitable Donations	\$ _____
Vacations	\$ _____
Holidays	\$ _____
Birthdays	\$ _____
Anniversaries	\$ _____

Association Dues	\$ _____
Clubs & Organizations	\$ _____
*Professional Dues	\$ _____
Magazine/Book Subscriptions	\$ _____
Newspapers	\$ _____
Entertainment	\$ _____
Rental Movies	\$ _____
Children's Allowances	\$ _____
Sports/Hobbies	\$ _____
Credit Card Payments	\$ _____
Annuity Investments (non-qualified)	\$ _____
*Pension Contribution	\$ _____
*Local/State/Federal Taxes	\$ _____
*Social Security Taxes	\$ _____
**Long Term Savings	\$ _____
Other/Short Term Savings	\$ _____
Cash Spending Money	\$ _____
<b>TOTAL MONTHLY EXPENDITURES:</b>	<b>\$ _____</b>

\* Do not include these items if they are deducted directly from your paycheck.

\*\* Savings and investments are considered to be long-term if they are held for three years, or longer. Money in long-term savings should not be used to pay for vacations, holidays, birthdays, anniversaries, insurance, home, auto repairs, or taxes, as these items are already covered separately in the Household Expenditures Worksheet.

NOTE: If any of the expenditures listed above are paid annually instead of monthly, simply divide your annual expenditure by 12 to get the monthly figure.