

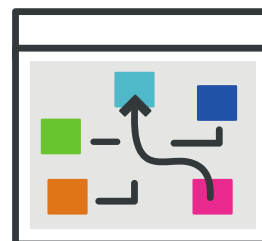
Financial Fire Drills

Platform Best Practices

The Six “L’s” summarize the events that commonly change the course of financial well-being. This process enables the advisor to reveal household plans and approaches to dealing with significant financial eventualities that are tied to their financial fitness. Each of these topics (starting with the letter “L”), are effective when asked in the following manner:

“What is your/the household plan in the event of _____?”

1. **Liquidity Needs**
2. **Long-Term Disability Events**
3. **Loss of Life**
4. **Long-Term Care Events**
5. **Longevity (long-term cash flows)**
6. **Legal/Liability**



The Financial Risk section of the Fact Finder, located on the back page, can be used to determine how the household can plan to deal with these events:

1. **Liquidity Needs-** Determine your client’s liquidity needs by comparing two analyses. Traditionally, the emotional comfort number (B) for how much liquidity a household needs will “override” the planner recommendation to have a multiple of monthly expenses (A).

Calculation A- Enter the household Current Monthly Expenses. Multiply the amount by the determined number of months as appropriate. *Note: 3-6 months is the recommended Monthly Multiplier amount.*

Calculation B- Enter the Comfort Liquidity Reserve amount. In other words, enter the amount that the client believes he/she would need to have available for liquidity in order to “sleep at night”.

The Household **Target Liquidity** amount should equal the greater of the two numbers.

2. **Long-Term Disability-** Determine your client’s LTD needs analysis by considering monthly and one-time capital expenses incurred if a household member loses their income. Several examples are included to remind the family that these events do not exclusively deal with income loss. Oftentimes additional loss of retirement plan matches, benefits, social security accruals and additional medical living expenses can be involved.
 - **Monthly Expenses** will include items such as *Living Expenses, Lost Retirement Savings, Business Expenses, and Catastrophic Events.*
 - **Capital Expenses** can include items such as *Education Funding, Home Modifications, and Emergency Reserves.*

3. **Loss of Life-** Determine the individuals in the household's Survivorship Needs Analysis by considering how the loss of that person would impact *Debt Repayment, Capital Expenses, and Income Replacement*.

Debt Repayment includes debt amounts owed by the deceased household entity. This will include items such as *Mortgage, Credit Card debt, and Loans*.

Capital Expenses will include such items as *Final Expenses, Education Funding, and Emergency Reserves*. Some households will also include minimum legacy goals and charitable bequests.

Income Replacement includes amounts determined to cover the loss of previous *Lifetime Income* of the deceased and/or *Transitional Income*. The Target-Map assumes a gross income replacement (pre-tax).

4. **Long-Term Care-** Determine a household member's Long-term Care Needs by considering Daily Expenses Needed and Capital Expenses. Traditionally it is recommended that households approximate a reasonable or average event duration (in years), and daily expense for care in a facility or home.

Daily Expenses will include items such as *Facility Expenses and/or In-Home care costs*.

Capital Expenses will include items such as *Home Modifications, Caregiver Training, and Care Coordination*.

5. **Longevity-** Determine Future Cash-Flow Projections for client-specific situations that will include retirement cash-flows, education funding, and any other custom future expense impacted by growth, tax and/or inflation rate.

Annual Expenses (after-tax) include such items as Living, Medical, and Travel expenses as well as Education Funding.

Capital Expenses will include items such as Education Funding, Home Modifications, and Emergency Reserves.

6. **Legal/Liability-** The Legal and Liability Checklist will assist the advisor to indicate important legal documents completed and situations that can affect a household's financial plans. These can include whether the household has implemented wills, trusts and business agreements, has special needs members, and/or is concerned about asset-protection.

Elements 1-5 of the Six "L's" can be used to create visual Target-Maps in the Asset-Map® Platform. Enter the needs and expenses as well as the financial elements available into the household's appropriate Target-Map to help them determine their current funding level towards meeting their specific goals.

Notes: In Sections 2-5, Custom Expenses should be included to fit the specific, future needs of households. Amounts and Durations should be included as well. i.e. \$25,000 until age 65 or \$25,000 until year 2022.