CENTERED FINANCIAL

THE ESSENTIAL FINANCIAL ACCOUNT CHECKLIST

TABLE OF CONTENTS

INTRODUCTION

Setting up a good financial system can seem overwhelming. However, at Centered Financial, we like to keep things simple. This checklist provides a basic way for you to set up your monthly cash flow so that you have:

1. All the accounts that you need.
2. Money automatically going to the right places for your goals.

Here is your list of the essential financial accounts and how to use them:

☐ CASH MANAGEMENT ACCOUNT

The cash management account is typically going to be your checking account. This is the account that receives all of your income deposits and then directs payments to your other accounts. You should open a cash management account at a financial institution that you feel comfortable with. This means that you should like their technology and if at all possible, you should not be paying fees for this account. An accessible branch is an added bonus.

With your cash management account, you should be able to set up direct deposits from your income sources and you should be able to set up automations for transferring money to other accounts and paying bills.

I also recommend a cash management account with bill pay capabilities. You should load your recurring payees into the system so that paying bills every month is a simple process of logging in and making sure everyone gets paid.

Bonus: Plan on a monthly money meeting. This is a short monthly session for you to review your finances and pay your bills. If you are on your own, schedule it for yourself. If you have a spouse/partner, work with both of your schedules to connect about your money in a constructive way.

☐ CASH RESERVE

Your cash reserve is your emergency fund. This should be a high-yield savings account or a money market account. Your cash reserve account should be easily accessible and completely liquid. This means that you should not have any financial penalties for withdrawing money from this account. As you work to build up your savings, your goal should be to accumulate a cash balance that is equal to about 3 months of your net income.

☐ CREDIT CARD

You should have one credit card that you use for your discretionary lifestyle spending. This is the card that you use for shopping, travel, dining out, etc. I recommend using a credit card monthly and paying off your entire balance each month. This way you are building a good credit history. It is important to be disciplined with your credit card and not spend more than you can pay off each month.

Bonus: Research credit cards and choose a card that is accepted widely and provides a good reward system. Annual fees should usually be avoided. Also, many credit unions offer credit cards that provide regular interest rates that are lower than most retail credit cards.

☐ COMPANY RETIREMENT PLAN

If you work for a company that provides you with a retirement account such as a 401(k), you should enroll in the plan. Since your contributions to this account will be deducted from your paycheck, this is typically the easiest way for you to contribute regularly to a retirement account.

You should find out how much your company contributes to the plan through a match or employer contributions. I recommend putting enough money in the plan to get the entire company match. The match is compensation that your company is offering you, so you shouldn't leave any on the table.

☐ ROTH IRA

Like a traditional retirement account, a Roth allows your money to be invested and grow without taxes each year. However, a Roth also allows you to withdraw your money tax-free. It is important to build up tax-free money for retirement in addition to taxable retirement money so that you have more control over your future taxes. If you have the ability to make Roth contributions to your company retirement plan, this is a great option for building up Roth money for retirement. If you don't have a Roth contribution option, you can open a Roth IRA as a personal account to save for retirement. There are certain income limits for contributing to a Roth IRA, so make sure to verify that you are eligible to contribute. These income limits do not apply to Roth contributions to a 401(k).

HOW THESE ACCOUNTS WORK TOGETHER:

These 5 accounts are the essentials that you need to manage your financial future. Once they are established, you need a system for making sure that your money flows to all of these accounts each month. Here is a system that you can follow to make sure that you are using these accounts effectively:

1. **Use your cash management account to pay your monthly recurring bills:**
   - Mortgage/Rent
   - Utilities
   - Insurance
   - Etc.
2. **Set up automatic contributions each pay period into your Cash Cushion and Roth IRA**
   - You should schedule regular automatic transfers to move money from your CMA to your CC and Roth. Make sure to set up the transfers so that they happen shortly after you get paid, this way the money is saved before you spend it.
3. **Choose a 401(k) contribution amount that allows you to capture all of your company match.**
4. **Use your credit card to pay for your lifestyle spending. Set up a time each month to pay off your balance by sending the payment from your cash management account. Control your budget by focusing on keeping this credit card balance within the range that you can pay off each month comfortably.**

---

[1] Roth accounts include after tax contributions, meaning you have already paid taxes on the money that is contributed to the account. Your earnings in a Roth account grow tax-deferred. If the Roth has been established for more than 5 years and you are over the age 59 ½, the withdrawals from a Roth are typically not included as taxable

income. There are penalties that may apply if withdrawals don't meet the 5 year and 59 ½ rules. There are certain exceptions. It is important to research the IRS rules and consult with your financial and tax professionals.

ACCOUNTS FOR THE NEXT STEPS:

Now that you have established your 5 essential financial accounts, here are some additional accounts to consider that will enhance your financial plan:

1: LIFE INSURANCE

If you have family members that rely on your income for their well-being, then life insurance is essential. Life insurance provides a tax-free lump sum of money if you die. While many people have life insurance provided as a benefit through their company, the amount that is offered through a group life insurance program will typically not cover all of your needs. Consider this hypothetical example:

Let's say a couple needed to replace $100,000 of income if either spouse passed away. If this $100,000 was needed for at least 10 years to provide stability until the children are grown, then there is a life insurance need of at least $1,000,000 ($100,000 x 10 years). This does not take into account interest or taxes, but you can see how a life insurance benefit can be a lifeline to a family when someone dies. Make sure to do some research. It is smart to purchase term insurance to cover a large temporary need like replacing the loss of income for a young family.

2: BROKERAGE ACCOUNT

In the essentials, we covered your cash cushion and your retirement savings, but what if you want to invest additional money for other financial goals? A brokerage account is an account that you open with an investment company that allows you to purchase securities like stocks, mutual funds, bonds, etc. This is where you put your additional savings after you have established a good cash cushion. It is common for brokerage accounts to offer a money market that your money is deposited into. From the money market you can purchase securities on a regular basis. Make sure to research fees as most brokerage accounts have now reduced trading fees to $0. You can also set up automatic transfers into your brokerage account along with automatic investments into certain securities.

3: 529 COLLEGE SAVINGS ACCOUNT

If you have a child and would like to save for future education expenses, then a 529 plan provides an effective way to save. The 529 allows you to contribute money and choose an investment allocation. Your money grows tax-deferred, which means that you do not pay taxes on your investment earnings each year. Then you can withdraw money from the account tax-free for qualified educational expenses. There are a few guidelines that you need to know concerning who should own the 529 and what are considered qualified educational expenses, so make sure to do your research. If college savings is a priority, you definitely need this account in your plan.

Remember that accumulating money for your goals is a process. Using these accounts effectively will help you make progress toward your goals and allow you to be organized when you need money the most. You don't have to be an expert; you just have to be disciplined. If you need guidance, you are not alone. You can always reach out to Centered Financial for questions regarding your financial plan.