Jane Walstedt: Now I would like to ask Gillian Gutierrez in the Women’s Bureau’s New York Regional office to introduce our first speaker. Gillian...

Gillian Gutierrez: Good afternoon. Erika Safran, Certified Financial Planner, is in the process of creating Safran Wealth Advisors, LLC, a fee only wealth management firm in New York City. She is a former principal at Financial Asset Management Corporation.

Ms. Safran provides financial planning and investment management services to individuals and small businesses. Ms. Safran is an adjunct faculty member in the Certified Financial Planners Program at Baruch College. She has been quoted in numerous news outlets, including Business Week, Money and The New York Times and has been interviewed by CNBC, CNN and BBC News, among others.

Ms. Safran received her Bachelor of Science degree from the State University of New York at Buffalo and her Certified Financial Planner’s degree from the College for Financial Planning. She is a member of the Financial Planning Association and the Financial Women’s Association of New York.

Erika Safran: Hi, thank you. This is Erika Safran. I am going to speak with you today about financial planning--some of the basic concepts, some of the fundamentals. Because in spite of all the new rules that are set by the Federal government this year that are there to not only protect us as credit card consumers and providing tax credits for home buyers so that existing home buyers and new buyers can benefit, all of these opportunities that are presented to us are of no value unless we can take advantage of them. And we
can only take advantage of financial opportunities if we have some kind of a personal financial plan, some kind of a strategy.

So where do we start. Well, financial planning really is the process of being able to achieve your life’s goals through proper strategic steps. Where are you going to go?

Well the first thing we need to think about is what are your goals and what are your life’s objectives. And the reason this is an important question is because we all have a different relationship with money. Money means something different from all of us - for all of us.

On the groundwork, money helps us to achieve certain goals. It helps us to build an emergency fund, to buy a home, to reduce debt, and of course the three items I just identified are the three key issues that seem to be prevalent over the past year.

Here we go. What if people wanted to create a budget? And we need a budget because we are going to build wealth. An emergency fund is important because you need to have money set aside for obviously someone becomes unemployed or for unforeseen expenses that arise.

Buying a home is an opportunity today if you have the money and the resources, because real estate prices are depressed. And reducing debt, well we have all lived lives that are a bit in excess, and some have survived and some have to reassess their situation. So how do we go about doing this?

Well this is the first step in the financial plan—budgeting. You know it is one of those God awful words that people do not like because budgeting means that you have to give something up. Well the fact of it is that budgeting really
gives you an opportunity of identifying how you spend your money and being able to meet your current obligations.

And if you know where your money is being spent, then what you can do is you can begin identifying the areas where you can reduce expenses and free up money to meet some other goals.

Basically, if you want to budget, what you need to identify is your fixed costs and your variable costs. Now your fixed costs are your rent, your mortgage, your taxes, insurance. And your variable costs are the costs that you have control over - your food, your clothes, your gifts. Of course everybody has to buy food, but you can opt to buy less expensive, more expensive, eat out less, and so on.

So by identifying your fixed and variable expenses, you are now on a step to…you are in the process of cash management. So what can you do to increase cash flow once you have identified your income and your expenses?

Well primarily a good strategy is to look at your credit cards and your mortgages or your mortgage. With low interest rates, today is an opportune time to refinance a high rate loan. If you have a variable rate mortgage, this is another opportunity to lock in a fixed rate.

Another opportunity--look to see how your investments are allocated. Are your investments creating unnecessary taxable events for you? So these are some areas that you may look at.

Then as we continue with cash management, we want to see what is our net worth. And our net worth is really our assets minus our liabilities. And if we want to increase the value of our net worth, what we need to do is to have proper cash management.
Now here are some important facts that everyone should know. We all have credit cards. How much of our income would be the maximum amount to be spent on credit cards? Well the real question is, “Can I afford this much debt?” So, consider that less than 20% of your net income should be allocated to paying off your credit card debt.

How much can you afford for monthly housing costs? Less than 28% of your monthly gross income should go to monthly housing costs. And that of course includes principal, interest, and insurance that goes to your home, or maintenance, if you own a co-op.

How much of your income should be allocated to debt payments? Now this is a big number, but you should have less than 1/3 of your overall pre-tax income as a maximum to be allocated to paying off your debts. And this does not include taxes and insurance.

So these are three key items that you should keep in consideration to be able to identify what your financial fitness is. And of course the last one is, “How much should I be saving?”

Well you should be allocating five to 10% at minimum of your gross income to long-term savings plans. And that could be through pension plans, retirement plans, through after-tax savings, any vehicle that you can [use to] save on a consistent basis to build up assets.

Now if you want to have options for reducing your debt, well credit card debt is always an issue. The new credit card laws are actually a great benefit to the consumer, because first there is a limited interest rate hike. So those of us who have credit cards at favorable rates, unless they are teaser rates, those rates are going to stay fixed.
And the rates that are higher will be the rate…will be the interest rate that you will be paying off first if you have a combined card. So how do you reduce that debt?

Well there is a quick strategy that you should consider. First, identify all your credit cards and pay off the smallest balance first and the highest rate credit card first, because once you have done your budgeting, [and] you have identified that you have some excess funds, debt reduction should always be a priority.

So continue paying the rates--the cards with the highest rate and the lowest balance--until you’ve finished paying that off. And then use those excess funds to pay the rest of the remaining cards.

Now in creating our financial security, we talked a bit about net worth. We talked about cash flow, and savings and investments. Well investments would certainly help you to achieve your goals. It will help you to turn them into realities.

I believe that investments will be discussed further as we are talking. But the consideration is is to recognize that to meet your financial goals, you really have to look at the entire picture. And of course if you identify the rest of the picture, consider the longer-term planning. How…do you have a will? Have you set these financial issues aside to be discussed for the end of the year? Review your will. Review your insurance documents. This is a real time to take stock of your entire financial situation. Thank you.

Jane Walstedt: Thank you, Erika. That…you sure squeezed a lot into your ten minutes. And that was very helpful information. And...
Erika Safran: Thank you.