Financial Health Audit

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Abstract:

A financial audit is a cornerstone item that one should consider especially as they are starting a new career. Having that financial foundation in place is crucial for future success as well as peace of mind. There are several different categories to consider when we're talking about doing a financial health audit. Many of us complete a variety of audits such as: parlor audits, calf barn audits, etc. for our clients. My goal is to compare these financial topics back to things that we would be more familiar with in the bovine world. We will uncover financial plan modifications, debt, retirement plans, saving/investing, and insurances within this financial health audit. We will scratch the surface to allow you to do your research into what is most important and beneficial to your household.

Keywords: Personal, Finance, Health, Audit

Introduction

The purpose of doing this audit or assessment is to create an action plan based on our goals. In the bovine world we want to improve health, improve productivity, welfare, etc. First, we will assess income and expenses and compare that to the environment in a calf barn. The environment for the calf is the current situation for them in the same vein that our current situation financially lies within our income and expenses. Then we will look at different types of debt and compare that to medications. Medications are needed to help a calf through a medical incident just as we utilize debt to help us afford things we do not have cash on hand for. We will go over retirement plans and relate that to nutrition. We provide quality nutrition to a baby calf and get a healthy cow or beef animal over time. I would relate that to how we start our retirement fund early and we get a healthy retirement when we reach that season in life. Next, we will talk about saving and investing for the future. This I would compare to sanitation in a calf barn audit. When completing an audit for a calf barn, we are looking at all aspects of the facility-bedding, ventilation, feed and water bucket cleanliness, milk room cleanliness, etc. and how we can tweak parts of the caretaker's routine to improve the health of the calves. This is associated with our savings and investing in the sense of small changes to our savings and investing plans can make a strong impact on the health of our financial plan. Lastly, we will discuss some of the many different insurances out there. The insurance topic matches nicely to vaccinations when it comes to the calf side of things. Our calf vaccination protocols are insurance policies for protecting that calf in the same way the insurance policies we invest in help to mitigate risk in our life.

Assessments/Goals

The first thing about assessing our current financial picture and how we can set ourselves up for a comfortable future is sitting down and thinking about our goals-short term and long term. Once we figure out what our goals are we can start to uncover how our money and time are going to aid us reaching those goals. We will need to look at our income and expenses and how they can be tweaked to work towards our goals. Some expenses are absolutely needed to support life, while others can be modified to better suit our wants and goals. Utilities, housing, food, and transportation are required for us to live and work. These are non-negotiable items to a certain extent. We may look at our financial plan and see we are driving a vehicle that is not cost effective for us if we are aiming to reach a particular goal. We can assess our housing options and there could be other options available that work for us and can open up more cash flow. Then we want to assess our income, so any form of money streams coming in need to be accounted for. Perhaps we get commission besides our salary or have some side hustles that will affect our monthly income amount.

Financial Plan Modifications

The question then becomes how we can make more income and or have less expenses to allow us to reach our goals in the planned time frame. There is only a certain amount you can decrease your expenses because we need to survive, and we need to be mentally stable too. We should look at our income and expenses and choose our priorities. If we get a donut at this coffee shop and it totally makes our day on the way to a herd check-keep it in there, for our mental health. Everything cannot be justified to help our mental wellbeing, but prioritize your expenses to fit some of these choices. Then we can look at some of these other areas such as housing. A good rule of thumb is to spend 25-30% of our income on our rent or mortgage. When the mortgage payment is higher than 30% of our income, we start having the risk of being "house poor" which may lead to stressful times for the budget. Transportation is another area we might be able to tweak. Having a paid for vehicle or working to pay off a vehicle that will be in your hands for several years is the most economical route to go. If you have regular maintenance completed on your vehicle, it is certain that it will last you a decent amount of time and you could have a fair return on it if you sell it in the future. Having an emergency fund is one fund we should have as an initial goal if we do not already have one as we want to be prepared for any emergency. The recommended amount to have in an emergency fund varies depending on who you listen to. Some financial experts say $1000 or three months wages so you need to decide for you personally what is a comfortable amount for emergencies. The amount I lean to is three to six months of expenses because I believe if I lost my income, I could find a new position and get back on my feet in that timeframe and I am comfortable with that. Then we want to check out our debts, listed all out. Most debts we have to pay back completely although student debt has some interesting options. We want to figure out how we are going to tackle the debts we have to 100% pay off and have a plan for the student loans that we may not be paying off the balance. Our insurance policies are another expense to assess. We want to have our bases covered and fit in the budget by selecting the policies that are most important to mitigate risk for us personally. When we open some spots in our financial plan, we have the freedom to decide if we want to save it for a goal, put it in retirement, donate it, or have some extra fun with it.

Debts

Debt is a sore subject but an important topic to talk about as it affects almost all of us in one way or another. Debt is like medication for the calf. We need it sometimes to get us to reach the next financial and life goal, but it does not have to become a routine. Personal loans are one major area to be addressed. This includes auto loans, credit card debt, loans on fun toys, boats, etc. They typically have higher interest rates so the plan should be to pay them off as fast as possible. Credit cards tend to have the highest interest rates. A mortgage will fall under the umbrella of personal loans too. Interest rates are not usually as high for mortgages as others. Make a plan for paying them and keep in mind that they are relatively easy to refinance when interest rates drop. If it is at least one percent point down from the current interest rate, talk with a mortgage company about refinancing and the opportunity to save money on interest and decrease the term length of your mortgage.

Student debt is a topic where many folks have been mis-informed or perhaps not educated. There are many student loan options as well as payment plans. Private student loans that are not funded by the Department of Education must be paid back in full. There are opportunities to consolidate these and re-finance this type of loan for a better interest rate and term. Federal loans from the government have a few different avenues you can take to pay them off or work to reach forgiveness of the loans. There is a standard 10 year plan to pay them off completely and a graduated plan to pay them off in 20-30 years. The Income Driven Repayment umbrella has several options for repayment that are dependent on when loans were taken out, type of federal loan, and payments are based on income. There is no one correct path for handling these types of loans. It needs to be a personal decision and practical that the payments are manageable for your financial plan. One rule of thumb is that if your student debt is less than two times your annual income, you should look at paying it off aggressively.

If you choose to select an Income Driven Repayment plan, there are a couple things to ponder about the different plans. First, some plan options are most likely changing due to a lawsuit as well as a change in political office. The nuts and bolts of Income Driven Repayment plans include that you pay 5-15% of your discretionary income for a period of 20-25 years and after that timeframe the remaining balance is forgiven. There currently are the Saving for A Valuable Education, New Income Based or Pay As You Earn, and Old Income Based Repayment plans. You verify your income annually and in the final year of payment, the remaining balance counts as income. You want to lower your gross income to decrease your payments by contributing to beneficial tax accounts such as a Health Savings Account and 401k. You will have potentially a substantial amount of additional income that year and will need to pay income taxes on it and this has been coined the "tax bomb". You will want to prepare for that by saving money for this tax bomb. There are a couple forgiveness plans available that do not entail paying a tax bomb, but have other requirements. There is the Veterinary Medicine Loan Repayment Plan which the government provides money over a set timeframe to veterinarians working in a designated shortage area. They must commit to the terms and complete all necessary paperwork. There also is the Public Service Loan Forgiveness plan that helps veterinarians working in the appropriate sectors such as shelters or the government to have loans forgiven in 10 years with no tax bomb. There is an application process and employment verification along the way to be eligible for this plan. To end this section on debt, the takeaway is to pay off high interest debt aggressively and to make a plan for paying student debt-passively or aggressively.

Retirement Plans

The next area in the audit that we will assess are retirement plans or the nutrition of the calves in the barn audit. We want to set up our retirement plan early in life so we can have a robust portfolio at the time of retirement. There are individual retirement accounts that anybody can start contributing to pretty early in life and then access the money when you are 59 ½ years old. There are two different types of Individual Retirement Accounts-

Traditional Individual Retirement Accounts and Roth Individual Retirement Accounts. The Traditional Income Retirement Account is pre-taxed so it would be coming straight out of your paycheck ahead of the amount you are getting deposited in your bank. Then when you pull it out in retirement, it is taxed at the future tax rate. Employers get a tax deduction for utilizing this retirement plan which could be a double bonus for self-employed veterinarians. The Roth Individual Retirement Account which is contributed as post tax money is not taxed when you withdraw it during retirement. There are contribution limits to these retirement plans and for the Roth there is an income limit that you become ineligible to contribute to this particular plan.

The other main retirement plan is the 401k which is an employer offered retirement plan that the employer usually contributes to as an incentive to the employee. The contributions from the employer and employee are not taxed. The money is taxed at the time of withdrawal, similar to the Traditional Individual Retirement Account. There are different types of 401k plans so some additional research may be needed if you are looking at all available options. The traditional 401k has a vesting schedule which means the employer's contributions are not 100% yours until a set time has passed. Your contributions are completely yours, but their matched contribution, in whatever facet they contribute requires a time commitment to the business before they are completely yours. This encourages retention on the employer's end. The SIMPLE 401k is more of a small business option and everything the employer contributes is vested immediately. Many employers match your contribution up to a certain percentage, such as you put in 3% of your gross income pre-tax and the employer will add that same amount to your account-like free money essentially that help grow that account. After you start to contribute to a retirement account whether it is an Individual Retirement Account or 401k, be sure to invest the money into funds. I have heard sad stories of folks contributing for many years and not investing in it which means it acted like a savings account instead of an investment account long term. The big takeaways for retirement plans are to make the match the employer offers and take the free money, invest in the funds within the Individual Retirement Account or 401k to maximize the potential of the retirement account, and then work on maxing out the retirement plans up to the contribution limits permitted each year.

Savings/Investment Accounts

The next topic to cover in terms of the financial health audit is saving and investing. This is relatable to sanitation in the calf barn. If we make small improvements and changes in the cleaning process and maintenance of the calf barn equipment, we are setting up the group of calves for a better future. When we talk about saving and investing, we are putting away small amounts of money into specific accounts to set ourselves up for achieving our goals-short term and long term. First, we have the traditional savings account at the bank. It is a good option to get money out immediately when needed, but it has very low interest rates. This is low risk and low reward in terms of saving money. Next, there are money market accounts and high yield savings accounts. These accounts are comparable to cleaning the milk buckets with soap and warm water versus simply rinsing with water. The interest rates are variable, but much better than the regular savings account. These are a great option for an emergency fund and money goals within the next few months to years. One challenge is that many of these accounts are online so it might take a few days to wire or transfer the money to a medium that works for you. Some other types of savings accounts are certificates of deposit and bonds. These are low risk and moderate savings options. These accounts must be left alone for them to mature, or you face a withdrawal fee/loss of benefits. The bank pays you interest in return for you leaving money there for 6 months up to 5 years or more.

Investing is the rest of the story on saving money for future goals beyond using the saving accounts discussed above. These are the more intense, more aggressive options. There are numerous ways to invest, the sky is practically the limit. Stocks, bonds, brokerage accounts are one area that is easy to be involved in while not having to be a stock market genius. Work with a fiduciary financial advisor to help with selecting funds to invest in or there are online advisors available to guide you as well. The brokerage account is one to be used for long term savings goals such as the student loan tax bomb, a house purchase a few years away, or even additional retirement money. The value of the account will fluctuate as the market does, up and down depending on world events so do not panic if investments drop dramatically. This is a marathon type of account, not a 100-meter dash. Other investing areas include real estate, cryptocurrency, bitcoin, and land. If you think you can make money investing in something, there is sure to be an entity to work with on that. The takeaway for investing is that time and consistency are more important than the amount saved or invested per month in terms of financial health. And this applies to retirement too as that is a form of investing.

Insurance

The final portion of the financial health audit is assessing our insurance policies. This is quite comparable to the vaccine protocols we guide producers to complete. Insurances are there to mitigate risk and protect the things we care about, just as vaccines are given to calves to mitigate risk of detriment due to disease. There are many types of insurances available, so one must do their research on what is most needed and what risks they feel they can tolerate in life, both professionally and personally.

Health insurance is an insurance I believe is essential. We need to protect the health of ourselves and our loved ones to the best of our ability and our budget. Some employers provide health insurance and it may include vision and dental. There are marketplace options available as well so check the math and use your judgment of you and your family's overall health and risk to decide what is going to best suit you. Here is a little information on the most common types of health insurance plans. There is the Health Maintenance Organization plan which requires you to use an in network doctor, to have a primary physician. If you need a referral to a specialist that primary doctor must complete the referral, you do not choose your own. Usually, this plan has lower premiums and copays with a lower deductible. The next health plan is a Preferred Provider Organization plan which encompasses a larger network. You have your primary physician and if you are referred to go to a specialist, there is more flexibility in making the decision of who you go to, in and out of network. This plan typically has higher premiums while maintaining a lower deductible.

The final health insurance plan to be covered today is the High Deductible Health Plan. This is just as the name suggests and has a high deductible, with a lower premium. This plan allows for even more flexibility with care providers but has the caveat that you have a higher deductible to meet than other plans. Your monthly premiums are lower, but keep in mind that you'll want to have the deductible prepared in a savings account in the event of an emergency. The High Deductible Health Plan is eligible for a practical savings account to take note of called the Health Savings Account. The Health Savings Account is an account that can be utilized for medical expenses now or in the future. It is an investment account that you can contribute to and invest in for future medical expenses and you must be enrolled in a High Deductible Health Plan to take advantage of this account. It is the only triple tax advantage account available. It is tax free going in, grows tax free, and is not taxed when you withdraw money. It is an additional type of retirement account to utilize especially if your other retirement accounts are maxed out. While contributing to it the funds withdrawn must be used for medical bills but once you reach retirement, it can be used as a regular retirement account. There is another account available to many employees called a Flexible Spending Account. This account is a savings account for childcare, dependent care, and some medical expenses. It has a timeline which the money must be used by although there is some rollover depending on the employer. This account is a good way to lower taxable income and help you save for some childcare expenses in a passive way. Both the Flexible Spending Accounts and Health Savings Accounts do have contribution limits similar to retirement accounts.

The next type of insurance to discuss is life insurance, specifically term life insurance and this is one I strongly believe everyone needs. Term life insurance is a great option for covering young people and mitigating risk of an unforeseeable tragic event. A term life insurance policy is set for a certain amount of time, usually 10, 20, or 30 years and is at a set rate meaning the premium does not change. The amount of money covered in a term life insurance policy should be set at 10-12 times your annual income. This is to help cover the expenses that would need to be paid after your death to lessen the burden on your family financially. The strategy of this policy is that after the term ends, your assets and investments will insure you. Also, by the time the term ends the goal would be that the children are out of the house and the house is paid for. Rates are lower for a young healthy person, so strongly consider getting coverage sooner rather than later.

After life insurance, the rest of these types of insurances are more personal in the sense of what coverage you feel is needed for you personally and professionally. Disability insurance is one that has many options and may be covered by your employer. Check your benefits package and if not, you can purchase your own relatively easily. Short term disability pays out for weeks to a few years. The policy will cover up to 60% of your income while you are not working. When getting a policy be sure to check "own occupation" so it is specific to your job. My personal short-term disability is listed as a large animal veterinarian, as I would not be competent to work in a small animal clinic while healing from an injury. Also read the fine print on your policy as maternity leave is not covered on all short-term disability plans. Long-term disability insurance plans cover you for years until you reach retirement. This type of plan is for high-risk occupations that could affect you severely if injured. I would argue bovine medicine could definitely be considered high-risk; it depends on how you assess your own position. Again, be sure to check "own occupation" so it is specific to your job. The example I think of is if you have an injury that takes away full motion of your legs and you have veterinarian listed as occupation, you could work as a veterinarian in a different capacity, not bovine perhaps which could lead to a debate if you actually need payout of that policy.

The final type of insurance plan to cover today is liability insurance. This type of insurance is usually covered by the employer but check if it is in the benefits package and if it's a personal liability or group liability policy. Liability insurance provides legal guidance for mistakes, complaints, accusations, patient death, etc. Legal topics are an area I want to avoid so having this type of insurance helps me to have peace of mind in the event that something happens while practicing bovine medicine. The takeaway from this section on insurances is to protect you and your loved ones and cover what fits in your financial plan. Health insurance and life insurance are must haves while the others discussed may have their place depending on your risk tolerance and financial plans.

Conclusion

The financial health audit is an important element of our life the same as the cattle audits we do in the field can have a strong impact on the future of the herd. We need to have our goals and then assess where we are on the journey to achieve them. We want to uncover our environment and what is included on our income and expense sheet monthly, then pivot to better align with our goals. Debt or medication in cattle we know is expensive both mentally and financially, so we need to consider how we are going to work in this area. Preparing our future self for retirement means having a plan to invest that will allow us to live how we want once we reach that age, just as calf nutrition prepares that baby heifer to be a productive cow on the dairy at maturity and beyond. Cleaning up the little things regularly in the barn helps calves thrive and meet their weaning weight goals just as we work to save and invest a little regularly helps us to meet our financial goals. Lastly, we want to protect ourselves and our loved ones by having the appropriate insurance coverage same as the caretakers give the calves the recommended vaccinations to protect the health of the herd.

In order to accomplish the seemingly overwhelming audit, one must take small steps and work through it. Use an app or template to track your financial goals. Remember personal finance is personal and will look different for each person. Work with a fiduciary financial advisor to develop and modify financial plans, especially the investment accounts. They are financial experts just as we are cattle experts. Celebrate progress towards a goal and after achieving the goal.

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