inspiration
FINANCIAL PLANNING

✓ **Sample financial plan**

Clients

- Wife, 34 years old, good health, married
- Husband, 41 years old, good health, married
- Two children, 6 and 4

Goals/Objectives – a comprehensive financial plan to address

- Plan/Save for retirement
- Pay off student loans
- Travel/Enjoy Life
- Pay off other debt
- Build emergency fund
- Purchase home

Net Worth and Cash Flow

Please see Net Worth Statement and updated Cash Flow Statements in the Client Portal. Maintaining account connections and updates financial values in the portal allows us to collaborate on an ongoing basis. Consider using the budgeting module for a few months to get a handle on if there may be opportunities to improve your cash flow and plan ahead for expenses.

Analysis

General Finances – in general your financial health and net worth are dominated by the balances for student loans for both of you. Outside of those, you are in a position with husband's income where you should be able to allocate your resources in a way that will reach your future financial goals. As more than 50% of your income is variable, it is important to control fixed expenses and have a plan for additional income that comes in.

Emergency Savings – Emergency savings gives you peace of mind that should something unexpected occur, you have liquid funds to cover it without having to worry about selling investments at an inopportune time, nor having to borrow, nor having undue delays in accessing your cash. It appears you have adequate emergency funds saved in your savings account (3-6 months expenses), however we will assess the amount once we have a handle on your expenses/cash flow.

I would recommend that you compare the interest rate you are receiving on that account to a high-yield online account from Discover Bank, Synchrony Bank, or Ally to see if you could potentially earn more elsewhere. A separate online account accomplishes two things: it returns significantly higher interest, and it takes a few days to access so that you need to think about whether you should be using your emergency fund for whatever it is.

www.inspirationplanning.com
nk@inspirationplanning.com
760-933-7526

Debt Reduction – You have two student loan accounts that you are paying on. Wife's outstanding loans are the highest balance. The account balance for these loans is about $78k. You appear to have been paying on these loans for over 6.5 years on an income based repayment plan. Your payments are going almost totally to interest and your rates are high between 6.55% and 7.65%.

Husband's account has a balance of around $46k. The interest rate is a fixed 5% and it appears that you have just begun repayment on this loan within the last year. It does not appear that you are on an income based repayment plan for this loan.

You do have credit card debt that you desire to have paid off in the next 12 months. This totals approximately $12,000, and is spread over 3 cards with varying interest rates. I will review the alternative payoff strategies with you during our meeting using the client portal. We will then decide which one you would like to pursue, and we can track your progress together online.

Home Purchase – You have expressed the goal of saving for a down payment for a home. We will discuss over time the type/cost of home you hope to buy, how much you should save v. invest in other areas, and when it may make time to purchase based on your lifestyle and other goals.

As first-time homebuyers, you may be eligible to use up to $10k each of IRA/401k funds for this purchase without penalty but you would still need to pay tax unless it is from a Roth IRA/401k account. The federal first-time homebuyer tax credit program expired in 2010, and your income is likely too high for other grants available in your state. At the appropriate time we can investigate other options that may exist for you depending on your income and where you would like to buy.

Additional Income – As additional income comes in, let's discuss how to allocate it toward your debt, savings, and other financial goals.

Insurance – I have reviewed the renter's and auto policies/information you provided. I also reviewed your employee benefit information for health, life, and disability coverage.

Health – You are both covered individually through your workplace policies. Wife looks to be participating in a flexible spending account as well at the maximum annual allowance of $2,550 for 2016. She should make sure she plans to use at least $2,050 this year as this is a use it or lose it account, except for a potential $500 rollover. We will review these policies together during your annual enrollment cycles to see if there is a way to optimize your insurance choices to get the most out of your coverage.

Life – Husband, you are covered by a term policy offered by your employer of 2.5 times salary which is $300k. You have also elected to participate in the additional voluntary term life coverage of $150k. This is at an annual cost to you of $155. This coverage is adequate for your needs at this time. However, I would recommend that we review this to determine if it makes sense to switch to a private policy that you could continue even if you left your current employer.

Wife, you do not currently have life insurance coverage. Based on your needs, I would recommend a 20-year term policy with a death benefit of $500,000. I will work with you to find quotes and choose the best policy. I'm estimating this coverage to cost approximately $350 per year based on your current health status.

I typically would not recommend whole or permanent insurance unless you have a special needs child you need to provide for forever, or have a need to pay estate taxes. These policies are best utilized when there is a permanent need for insurance.

Disability – One of your most precious assets is the ability to earn an income – also known as human capital. Without that, your ability to achieve your financial goals could be diminished.

Here are some of points of note regarding disability insurance:

- Premiums paid with pre-tax dollars, or employer paid, provide taxable benefits (generally group coverage); premiums paid with after-tax dollars are paid tax-free (can be individual or supplemental group coverage).
- Group coverage benefits are generally calculated as a percentage of income up to a monthly limit and only cover salary (usually does not include bonuses)
- Group coverage is not typically portable; individual coverage is portable – meaning you do not lose your policy if you leave the employer.

Husband, you are covered for long-term disability (LTD) with your employer's group coverage and they cover the entire premium. Your maximum benefit is 60% of your monthly salary up to $15,000 and the benefit would be taxable and further reduce the amount you would take home. You are covered for short-term disability as well (STD).

Wife has no disability coverage currently. We will address your options during your open enrollment cycle this year. This is a lower priority right now since your income is lower.

Home – I have reviewed your renter's policy and it appears to be adequate coverage at an affordable price. I would recommend reviewing the amount of personal property coverage to make sure it would cover your losses if a catastrophic event like a fire happened. Also, ask your insurance agent if you have replacement coverage, or actual cash value (ACV). Replacement coverage is preferred as personal property depreciates quickly. You could increase your deductible to $1,000 and that would help offset an increase in coverage amounts.

Auto – Your auto coverage looks adequate based on your needs at this time. We can always discuss modifying your deductibles depending on if you would like to decrease your premiums or lower your out of pocket risk.

Umbrella Liability – At this time, I would not recommend an umbrella liability policy as you do not have sufficient assets to warrant it. An umbrella policy, commonly referred to as "lawsuit insurance", coordinates with your home, auto, and other insurance and provides excess coverage for losses beyond your other policy limits should you have significant assets to protect.

Investment Planning

Wife's risk score is slightly more conservative when compared to others of her age group. The score would translate into a portfolio consisting of 50% stocks and 50% bonds. While this type of portfolio minimizes risk when compared to other more aggressive portfolios, it also can limit growth. We can run projections as to whether you will need to increase your risk based on the amount you are willing and able to save, or whether you can save more to make up for the more conservative portfolio.

Husband's risk score is slightly more aggressive when compared to others of his age group. The score would translate into a portfolio consisting of 80% stocks and 20% bonds.

I would recommend some changes to your workplace retirement accounts to account for these results, while also balancing the need to take risk in order to meet your goals. We will work to align your investment choices with these portfolio recommendations with your approval.

Tax Planning – Your tax returns are fairly straightforward as neither of you itemize, own properties or businesses, or are subject to the alternative minimum tax (AMT). Your AGI is too high to take advantage of the student loan interest deduction at this time.

I will work closely with your tax preparer/CPA to make sure your withholding is appropriate as you go into next year and purchase your home.

Retirement Planning – I have reviewed your accounts that you provided. I would also like you to upload your Social Security statements if possible.

Husband, you are contributing what looks to be 3% of your pay to your 401(k) and based on your paystub you are receiving 100% on that amount. I do not, however, have statements from you regarding this account, nor do I have investment options and complete match rules in order to make a recommendation. I can do that once I have that information.

Wife, I have reviewed your old 401k and profit sharing accounts from your previous employers. I have also reviewed your current 401k. You are currently contributing 10% of your pre-tax income (including commissions) and your employer is contributing 5%. I would recommend that we review what your employer's contribution rules are to see if you could gain more match by increasing your contribution.

Given the available options in your current 401k, your investment in the American Funds American Balanced option is sufficient for now as it is a diversified option with lower fees than your other options. Once we review your total investment portfolio and decide what to do with your old 401ks, I might recommend a change.

Regarding your old 401k balances, you have the options of leaving them where they are, rolling them into an IRA account, or rolling them into your current 401k (as long as your employer accepts rollovers). Given that you don't plan to stay at your current employer and your investment options there are not ideal, I do not recommend rolling them into your current 401k.

For your XXXXX account, you have provided the investment options available and based on those, I would recommend rolling that account out of there and into an IRA. For your XXXXXY profit sharing balance, you have not provided your investment options. Based on the fact that I recommend opening an IRA for your other account, you might want to consider rolling this balance into that same account, regardless of your investment options, to simplify your finances.

For your new IRA account, I would recommend a passive, low-cost investing strategy such as that offered by Betterment or Vanguard. Please let me know if you would like me to provide more information regarding these options – I can walk you through the steps to set up your account and choose your investments. We will review these accounts annually to determine if changes need to be made.

Estate Planning – You have indicated that you do not have any estate planning documents. It appears that you both have access to employee benefits that include legal advice. I would recommend that you consider enrolling in a legal plan and have a will, powers of attorney, health care directives, and (potentially) a trust established if your attorney recommends it. I also recommend that you review the beneficiaries on all of your accounts to make sure they reflect your wishes and follow your estate plan once you have the documents drawn up.

The most important piece of estate planning for your family right now is to complete a document (could be a will, but could also be separate) that establishes your wishes for guardianship of your children should something happen to you. I will continue to remind you of this.

In general, updating your estate plan every five years, or as your circumstances change, is recommended. Likewise, update your Financial Power of Attorney (likely part of your Legal Power of Attorney) every 1-2 years. Laws regarding estates and probate change frequently and those changes may affect your plan. In addition, banks will sometimes reject Financial Powers of Attorney that are not current.