WOMEN'S WEALTH

Jane Doe

Sample Financial Plan

OCTOBER 2019

Jane Doe

- 44 years-old single mom with 8-year-old child.
- Former partner and child's father is not involved.
- Jane would like to find a life partner eventually.
- Marketing director for a midsize company in Portland.

- Father passed away 9 mos. ago. Received $150K inheritance (mostly stocks).
- Jane and her younger sister emotionally support their widowed mother.

Goals

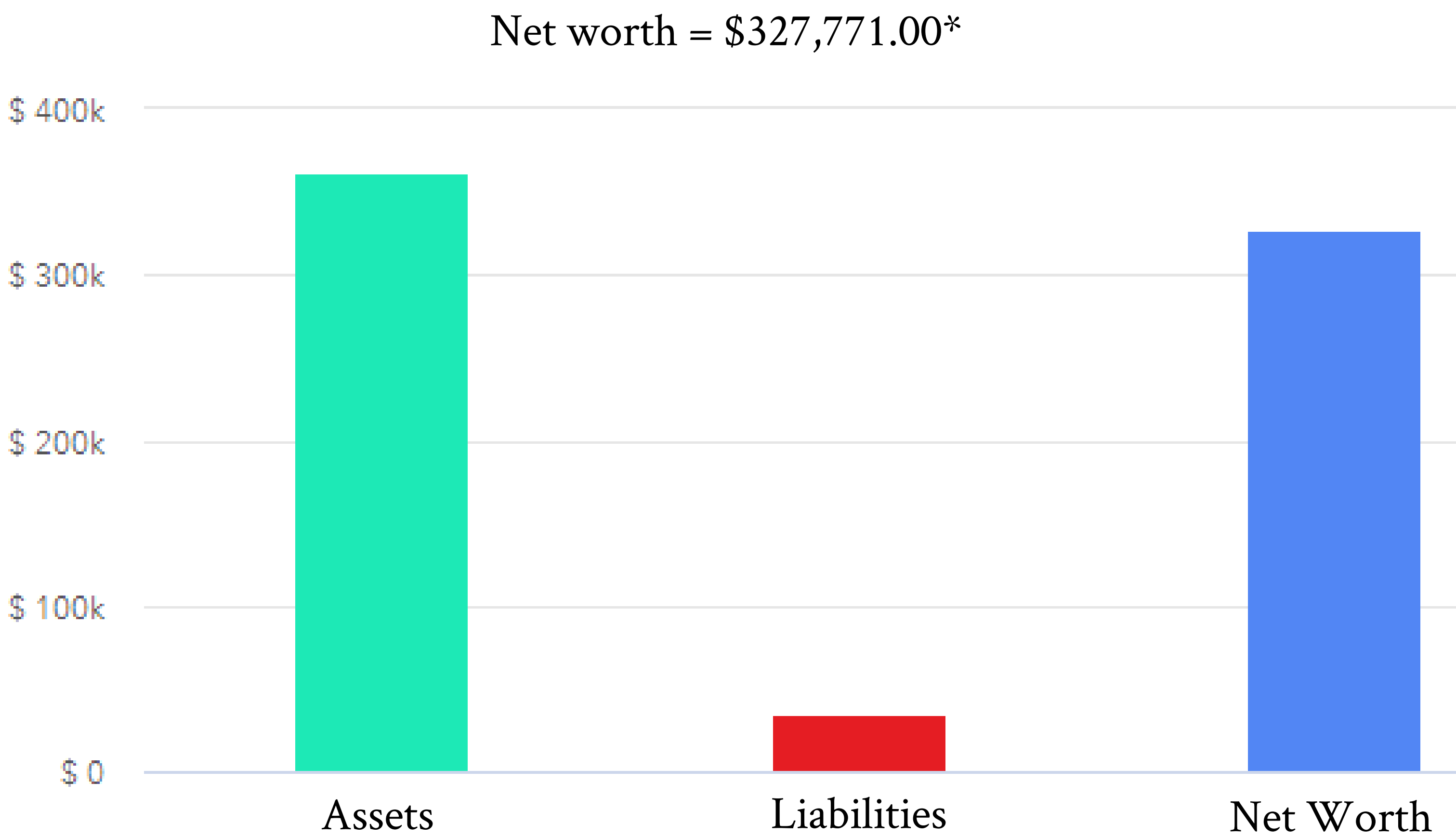
Primary

- Pay off credit card debt ($35K).
- Establish an emergency fund.
- Save more for retirement. Currently, invest 6% in 401k (current balance: ~$212K) in order to receive full employer match.
- Put money towards college fund (current balance = $0).
- Buy a townhome ($300K - $350K; 2bds and 2 baths) or craftsman home ($350K - $400K; 3bds and 2 baths) in a good school district and close(r) to work.

Secondary

- Potentially change career (perhaps to writer) in 15 years after daughter graduates from college.

Net worth (Summary)



*Includes $150K inheritance (mostly stocks) from recently deceased father.

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Net worth (Details)

Description	Jane
Cash	
Total Cash	$ 0
Invested Assets	
Jane's Investment Account	$ 298,956
Jane's Investment Account	$ 63,815
Total Invested Assets	$ 362,771
Other Assets	
Total Other Assets	$ 0
Liabilities	
Jane's Card	$ 35,000
Total Liabilities	$ 35,000
Total Net Worth	$ 327,771

Cash flows

Monthly Cash Flow	
Gross Income	$8,333
Less: 401k Contribution	$500
Net Income (25% tax rate)	$5,875
Less: Living Expenses	$5,000
Net Cash Inflow	**$875**

Potential Annual Savings = $10,500

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Debt

- Credit card debt: $35K
- Monthly payment: $750
- Annual interest: 10%
- Planned payoff period: 5 yrs
- Interest paid (projected): $10K
- **Recommendation:**
  - Put $35K (as lump sum) from inheritance towards debt.
  - **Interest Amount Saved (Projected): $10K**

Risk Management

	Current	Recommendation
Disability	50% of gross pay (coverage)	65% of gross pay (coverage)
Life Insurance	$0	$700K – Term life • Employer plan: $200K • Private plan: $500K (supplemental)
Long-term Care (LTC)	$0	Leverage brokerage acct and Roth IRA to pay for potential LTC.

Employee Benefits Optimization

- Increase **401K contribution** from $6K/yr to $19K/yr
  - Increase probability of success via higher savings rate
  - Reduce income tax by ~$3.0K (annual) – assuming 23% tax rate (current)
- **Invest more aggressively** in employer plan
  - Current asset allocation: 65/35
  - Proposed asset allocation: 70/30 (Jane has low risk tolerance)
- Increase **disability insurance coverage** from 50% to 65% of gross income
- Purchase **term life insurance ($700K total):**
  - Employer plan: $200K
  - Private plan (supplemental): $500K

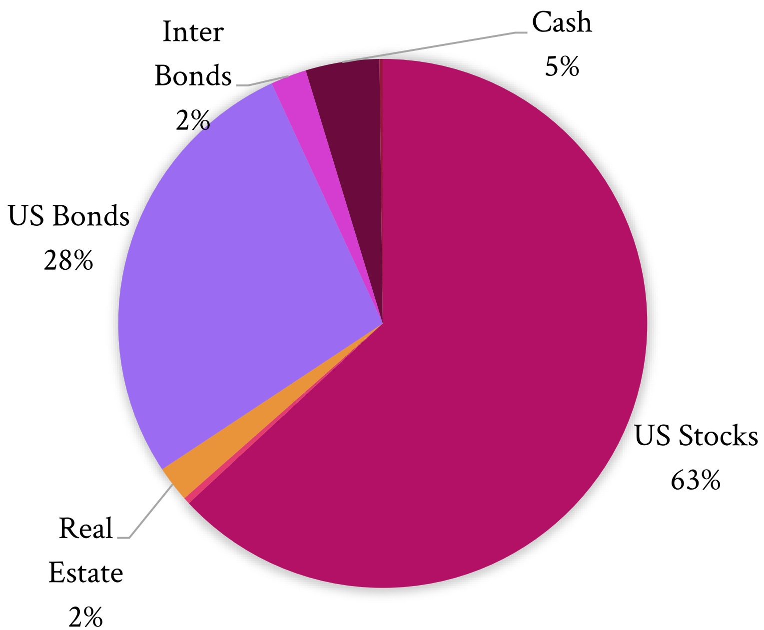
Retirement and Long-term Planning

- Prioritize retirement savings over college savings and home purchase.
- Allocate more savings to retirement/investment accounts:
  - 401k – Max out annually
  - Roth IRA – Max out annually until become ineligible due to high income ($137K/yr + for head of household)
- Don't buy townhome or craftsman home. Benefits:
  - Greater control over housing expenses (usually about one-third of gross income).
  - Higher savings rate towards (typically) higher yield investments (e.g., stocks).
  - Greater liquidity and mobility.
- Taxable acct ($90K net-of-$60K sales): Build up by investing additional $10K/yr; establish acct as college fund – benefits:
  - Cap tax rate at 20% (highest capital gains tax rate)
  - Greater flexibility in how and when assets are utilized

Investments - Current

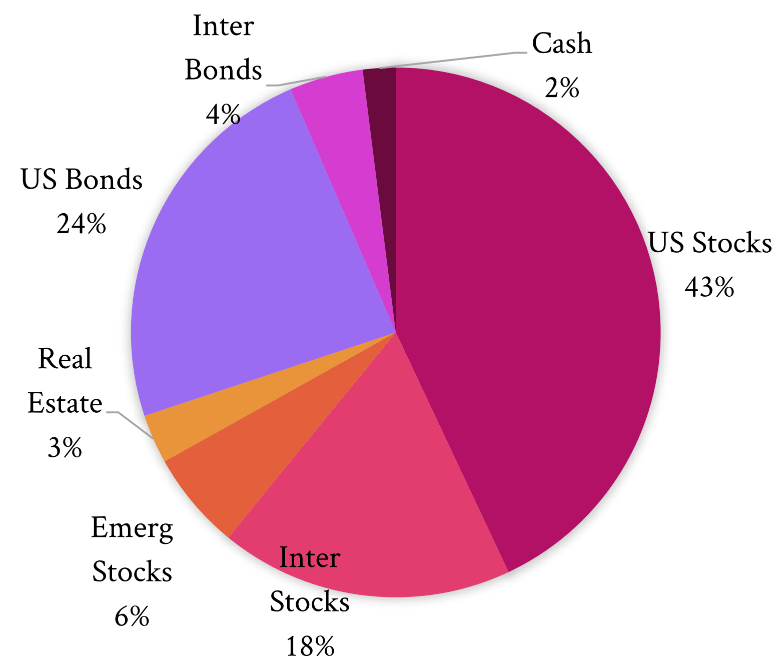
Current

66% stocks and 34% fixed income



Proposed

70% stocks and 30% fixed income



Rationale:

- More growth-oriented asset allocation to align with retirement income needs; risk tolerance; investment horizon.
- Greater diversification helps optimize risk/return trade-off.

Tax

Current: Annual Cash Flow
(6% of Gross Pay to 401k)

Gross Income	$100,000
Less: 401k Contribution	$6,000
Less: Standard Deductions (Head of household)	$18,350
Net Income	$75,650
Effective Tax Rate	23%

Proposed: Annual Cash Flow
(Max out 401k)

Gross Income	$100,000
Less: 401k Contribution	$19,000
Less: Standard Deductions (Head of household)	$18,350
Net Income	$62,650
Effective Tax Rate	21%

Rationale:

- Annual tax savings = **$3.0K** ($13,000 x .23)

Estate Planning

Jane's Estate Planning Docs (Inventory)	
Will	○
Living Trust	○
Durable Power of Attorney (POA)	○
Healthcare Power of Attorney (POA)	○
Beneficiary Designation	●

● Documents or tasks are completed and up-to-date.

○ Documents or tasks are not completed and/or not up-to-date.

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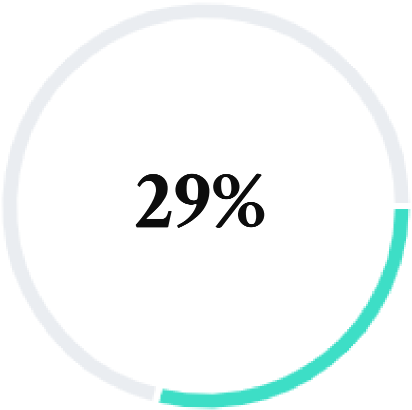
Probability of Success – Base Case

Current



- $35K credit card debt
- 6% contribution in 401k; asset allocation: 65/35
- $150K in taxable account
- Retirement income = $7.6K/mo
- College Tuition (Estimate): $22K/yr

Proposed

- $35K lump sum towards credit card debt
- 19% contribution in 401k; asset allocation: 70/30
- $10K/yr addition to taxable account
- Retirement income = $6.0K/mo (~20% less)
- College Tuition (Estimate): $15K/yr (~30% less)

(NOTE: Consider asking child to pay for part of college.)

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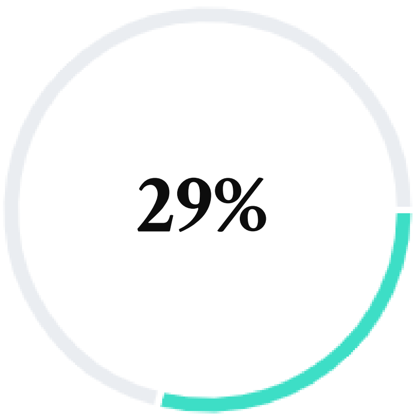
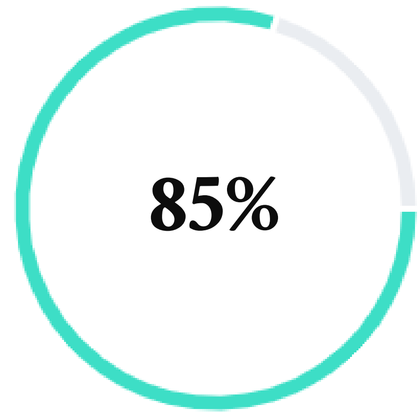
Probability of Success – Higher Savings

Current



- $35K credit card debt
- 6% contribution in 401k; asset allocation: 65/35
- $150K in taxable account
- Retirement income = $7.6K/mo
- College Tuition (Estimate): $22K/yr

Proposed

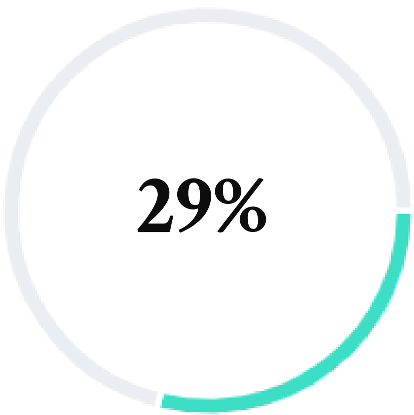


- $35K lump sum towards credit card debt
- 19% contribution in 401k (Growth 70/30)
- $10K/yr addition in taxable account
- $6K/yr in Roth IRA
- Retirement income = $6.0K/mo (~20% less)
- College Tuition (Estimate): $15K/yr (~30% less)

(NOTE: Consider asking child to pay for part of college.)

Probability of Success – Lower Living Expenses

Current



- $35K credit card debt
- 6% contribution in 401k; asset allocation: 65/35
- $150K in taxable account
- Retirement income = $7.6K/mo
- College Tuition (Estimate): $22K/yr

Proposed

- $35K lump sum towards credit card debt
- 19% contribution in 401k (Growth 70/30)
- $10K/yr addition in taxable account
- $6K/yr in Roth IRA
- Retirement income = $5.5K/mo (~30% less)
- College Tuition (Estimate): $15K/yr (~30% less)

(NOTE: Consider asking child to pay for part of college.)

Income Withdrawal Strategy

Year	2040	2045	2055
Jane's Age	**65 (Phase I)**	**70 (Phase II)**	**80 (Phase III)**
401k (tax-deferred)	$6,000/month	$5,000/month	$4,000/month
Social Security (taxable)		$3,000/month	$3,000/month
Roth IRA (tax-free)			$2,000/month
Total (Net of taxes)	**$6,000/month**	**$8,000/month**	**$9,000/month**

Rationale:

- Withdraw income from tax-deferred account (401k) during phase I of retirement to take advantage of lower income tax bracket.
- Defer Social Security until age 70 (Phase II) to maximize lifetime benefit (annuity); about 7% more/yr if wait from age 62 to 70.
- Tap into Roth IRA in later years (Phase III) to allow more time to grow tax-free assets.

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Recommendation Summary

Short-term (0-1 yr)

- Sell $60K of inherited stocks and allocate proceeds this way: a) $35K towards credit card debt b) $25K towards emergency fund (in online savings account).
- Diversify inherited stocks from tech stocks to index funds.
- Increase 401k contribution from 6% to 19%. Invest more aggressively – 70/30 mix, at least.
- Increase disability coverage from 50% to 65% of gross income.

Mid-term (1-3 yrs)

- Estate planning to protect child: will; living trust; durable POA; healthcare POA; beneficiary designation.
- Purchase term life insurance ($700K) to further protect child's future.
- Consider contributing to brokerage acct ($10K/yr) vs 529 plan. More flexibility in when and how funds will be used. Capital gains tax cap at 20%.

Long-term (3 yrs+)

- Consider contributing to Roth IRA ($6K/yr) in addition to maxing out 401k.
- If still want to pursue home ownership, explore options to help defer costs (e.g., rental unit).