Executive Summary - Sample Client

Retirement Summary

Based on your current savings and spending, you are on track for a successful retirement at Leonard's age 64 and Penny's age 62 (i.e. you did not run out of money in 950 of the 1,000 trials).

We ran an additional retirement scenario assuming that you maintain the same spending as the current scenario, but retire early (both at 56). For this to be a successful retirement scenario you would need to:

- Increase your Joint Brokerage Account Contributions from $15,000 to $24,000/year.
- Both utilize the Backdoor Roth IRA Strategy (up to the max each year – currently $7,000/each).
- Leonard to work Part-Time with Sheldon and earn $48,000. We know earnings will likely be higher than this, but used a conservative number for illustrative purposes.

By making these changes and retiring at 56, your plans likelihood of success was 85%.

Action Items

(Refer to accompanying sections for "how to" instructions for implementing action items)

1. *Pay off Penny's Credit Card Balance*
2. *Refinance Penny's Private Student Loans*
3. *Increase Brokerage Account contributions to $2,000/month*
4. *Fund Backdoor Roth IRA for $7,000 for Leonard*
5. *Fund Backdoor Roth IRA for $7,000 for Penny*
6. *Update 401(k)/403(b) investment allocations*
7. *Add individual life insurance coverage*
8. *Update estate planning documents*

Leonard and Penny Hofstadter

By Caleb Pepperday, CFP®, ChFC® | Advanced Practice Planning, LLC

Financial Planning Recommendations

Debt Management

1. ***Credit Card Debt -*** Penny will use here Q1 Bonus to pay off remaining credit card balance.

2. ***Penny Student Loans*** - Penny will work with Caleb to review refinancing options for private student loans. (Goal is to get overall interest rate on loan down to 4%).

3. ***Leonard Student Loans*** - We previously enrolled Leonard in the Pay As You Earn (PAYE) Student loan repayment program. He currently has 81/120 PSLF certified payments. Assuming you maintain your annual income recertification and stay employed in a non-profit position, we expect your loans to be forgiven in 39 months, tax-free. Remember to recertify your income in June. No other action needed for now.

Investment Recommendations

1. ***Leonard's 403(b) -*** is currently allocated to the Vanguard 2045 Fund. Target date funds are great to get started but tend to become too conservative too quickly as you approach retirement. We've designed a more appropriate allocation to meet your goals based on the available options in your plan.

   - Vanguard Total Stock Market Index Fund – 50%
   - Vanguard Mid-Cap Index Fund – 15%
   - Fidelity Small-Cap Index Fund – 10%
   - iShares MSCI Total International Index Fund – 20%
   - Vanguard Emerging Markets Stock Index Fund – 5%

   NOTE: Making changes to your 403(b) is a 2-step process, you will first need to update the current investment balance to the new allocation and then adjust your ongoing contributions to the new allocation as well.

2. ***Penny's 401(k) -*** is allocated to the Fidelity Freedom 2040 Fund. We recommend the following allocation based on the options available in her plan.

   - iShares Total Stock Market Index Fund – 50%
   - Fidelity Mid-Cap Index Fund – 15%
   - Charles Schwab Small-Cap Index Fund – 10%
   - Vanguard MSCI Total International Index Fund – 20%

- Fidelity Emerging Markets Stock Index Fund – 5%
- Fidelity Total Stock Market Index Fund – 50%

3. ***Joint Brokerage Account -*** We recommend selling Clorox and reallocating the process to the S&P 500 fund. Selling Clorox will allow you to realize a Capital Loss of $1,931 that you can use to offset (up to $3,000 of your ordinary income for this year). You can also carry-forward these losses into the future and if we sell other investments inside your brokerage account, we can use the Capital Loss to offset up to $1,931 of Capital Gains.

4. ***Backdoor Roth IRA Funding -*** As discussed, funding Roth IRAs will be beneficial in your situation so that you can take advantage of tax-free retirement growth with your excess savings. Currently, your income is over the Modified Adjusted Gross Income (MAGI) limits to contribute to a Roth IRA through ordinary means (phased-out at $240,000 of MAGI Income for a MFJ couple). However, since you don't have any Traditional IRA assets currently, we can take advantage of the Backdoor Roth IRA Strategy. There is limits on the deductibility of Traditional IRA contributions but the contribution amounts to a Traditional IRA. Nor are there currently limits on Roth IRA conversions.

   You're currently over the limits to be able to deduct Traditional IRA contributions, but you can still make non-deductible contributions to the account. The Backdoor Strategy consists of making non-deductible contributions to your Traditional IRA ($7,000 each person), then immediately converting the Traditional IRA funds into a Roth IRA. Thus completing the "Backdoor Strategy".

Insurance Planning

1. ***Life Insurance*** - Based on your current incomes, it's unlikely that any major financial changes would occur should one of you pass away. That being said, since you do plan on starting a family within the next year, it may be worth looking at life insurance options proactively to lock-in the lowest rate possible when you're young and healthy.

   - For example, Leonard could get a $2,000,000 20-year level term policy for only $120/month.

   - Penny could get the same coverage for only $110/month.

   If one of you were to pass away, this would leave you with ~$750,000 that you could use to pay off the house, $65,000 for Penny's private student loans, and still leave you with roughly $1,200,000 that we could use to partially replace one of your incomes. If we were to invest the $1,200,000 and earn roughly 5%/year, $1,200,000 could provide up to $60,000/year of income while keeping the $1,200,000 principal intact to help pay for your future children's education or to help supplement your other savings in retirement.

   We would be happy to connect you with someone who can help or help you complete the applications online.

2. ***Disability Insurance*** – Leonard, you're currently enrolled in your disability benefits through work and would receive up to 60% of your income if you were to become disabled beyond 90-days. Based on your lifestyle and current savings, we believe this is adequate for now.

   Penny, we noticed that you had the option to enroll in a supplemental disability insurance policy through your employer that allows you to protect an additional 10% of your salaried income as well as 60% of your bonus pay. If you can get us information on this policy, we can help you evaluate if this benefit is worth it from a cost perspective or if you would receive better benefits from an independent third-party insurer.

   NOTE: We don't receive any compensation for these services which helps us provide advice as an unbiased third-party.

Estate Planning

Now that You're married there are multiple changes that you may want to consider making to your estate plan.

- Sheldon Cooper is named as Leonard's Executor, Healthcare POA, and Financial POA.
- Amy Farrah Fowler is named as Penny's Executor, Healthcare POA, and Financial POA.

You'll want to work with an attorney to get these documents updated now that you're married and have bought a house.

Note, once you have children you'll want to include information in your will for future guardianship should you both pass away. You may also want to include language in your Will that establishes a Testamentary trust upon both of your death's while your children are young. This helps prevent them from getting access to all of your assets at the age of majority in your state. For example, a testamentary trust with a trustee can provide $XXX for college educations, new cars every 5 years, weddings, down payments on homes, etc. You can also set an age, (e.g. age 40, where they would have access to the entire value of the trust). Once the time comes, we recommend working on this with your attorney. We're happy to be involved to help facilitate the conversation and ensure that all of your assets are being accounted for and will be distributed based on your wishes should you pass away prematurely.

Disclosures: