This document is intended to illustrate what a Fee Only Financial Planning Client may expect to receive as a Final Plan Report. This document does not reflect any actual client but does represent a typical set of case facts. It is intended for illustrative purposes only.

Final Report

Case Scope

During our engagement I have made a first draft of your financial plan to address your key goals of education funding, a new home purchase and your eventual retirement. In addition, I performed a Risk Management Analysis to asses the adequacy of your existing life insurance overage and applied a suite of Stress Tests to check for vulnerabilities in your plan.

Plan Goals

New Home Purchase

You wish to purchase a new home valued at $300,000 in 2023. You will put 20% ($60,000) down and finance the balance ($240,000) on a 30-year fixed rate mortgage note. I anticipate that your mortgage principal and interest will equal $1,138 each month.[1] Your gross annual income of $100,000 year means that your Housing Ratio 1 is 22%; which is considered healthy.

Education Funding

Your son is currently 1 year old, and you wish to provide funding for four years of in-state public school starting in 2036. Specifically, you would like for him to attend The University of Texas at Austin. Currently, one year of tuition, fees, room and board at The University of Texas at Austin costs $22,110.

Retirement

You would like to stop working at your age 65 in 2043. During retirement you want to have $80,000 in purchasing power[2] each year and you believe that you'll have longevity to age 94.

[1] Assumes a 30-year mortgage financed at 3.944%. Don't forget to budget for taxes and insurance.
[2] This is in today's dollars. Our analysis adjusts for inflation and allows for income taxes.

This document is intended to illustrate what a Fee Only Financial Planning Client may expect to receive as a Final Plan Report. This document does not reflect any actual client but does represent a typical set of case facts. It is intended for illustrative purposes only.

Key Assumptions

Income

While we agree that your annual earnings are likely to rise at a rate faster than inflation, to be conservative, I have assumed that your earnings will increase in line with inflation. Any additional moneys available after savings goals and living expenses have been met in any plan year may be put to work as an investment or spent on other goals as you desire.

Inflation

Baird's general inflation assumption for expenses is 3%. For college tuition we use an inflation rate of 3.3% which is consistent with historical college tuition inflation rates.[3]

I assumed that your savings amounts would not inflate. I chose to assume this in order to be as conservative as possible in the plan's projections.

Savings Habits

Your recommended savings habits are shown in the grid below.

Description	Owner	Current Value	Annual Additions	How to Use
Roth IRA	Ms. Client	$167,598	$6,000	Retirement
Brokerage	Ms. Client	$35,241	$4,000	Fund All Goals
Checking	Ms. Client	$4,250	$0	Not Used
Savings	Ms. Client	$5,028	$0	Not Used
401(k)	Ms. Client	$62,121	$25,500	Retirement
529 Plan	Ms. Client	$0	$5,000	Education

Asset Use

In your plan we've earmarked certain assets to fund certain goals. Section 529 assets for your child are earmarked for his education goal and retirement assets are earmarked for your retirement goal. Operating accounts like your checking and savings accounts have been excluded from the plan – meaning those assets aren't used to fund any goals. Assets like your brokerage account have been included in the plan and are assigned to Fund All Goals.

Social Security

We assumed that you'll claim Social Security Income Benefits at your age 70. The benefit amount shown in your plan is a program estimate based on your available earnings history. As you get closer to claiming benefits a more thorough analysis using an official Social Security Benefit Statement would be helpful. At this stage, a closer look isn't warranted.

[3] https://research.collegeboard.org/trends/college-pricing/figures-tables/average-published-charges-2018-19-and-2019-20#Also%20Important

This document is intended to illustrate what a Fee Only Financial Planning Client may expect to receive as a Final Plan Report. This document does not reflect any actual client but does represent a typical set of case facts. It is intended for illustrative purposes only.

Risk Tolerance Investment Returns

Projected investments returns are based on the allocation of the assets included in your plan. You may expect to earn an average return of 6.37% on your portfolio over the long term. You can also expect volatility (as measured by standard deviation) of 10.78%. I see that you are taking less risk than you can tolerate. For the sake of optimization, I recommend re-allocating your portfolio in line with the Risk-Based target of Capital Growth.

Portfolios	Name	Cash	Bond	Stock	Alternative	Fixed Index Annuity	3-Year Fixed Annuity	5-Year Fixed Annuity	7-Year Fixed Annuity	Unclassified	Projected Return	Standard Deviation
	Capital Preservation	20%	80%	0%	0%	0%	0%	0%	0%	0%	2.47%	1.36%
	Conservative Income	15%	65%	20%	0%	0%	0%	0%	0%	0%	3.45%	2.68%
	Income with Growth	10%	50%	40%	0%	0%	0%	0%	0%	0%	4.78%	5.95%
	Growth with Income	5%	35%	60%	0%	0%	0%	0%	0%	0%	5.80%	8.97%
■	Current	3%	22%	75%	0%	0%	0%	0%	0%	0%	6.37%	10.78%
	Capital Growth	3%	17%	80%	0%	0%	0%	0%	0%	0%	6.65%	11.92%
▼ ▲	All Growth	3%	0%	97%	0%	0%	0%	0%	0%	0%	7.35%	14.44%

■ Current ▲ Target ▼ Risk-Based ■ Risk Band

Average Inflation Rate: **3.00%**

Findings

Your plan's overall probability of success is 87%. However, it is important to drill down to the individual goal level to understand what drives this output. When examining each goal, our analysis tool assumes a straight line average annual return. *These goal by goal projections should be taken with a large grain of salt.*

Home Purchase

To meet your home purchase goal, it will be necessary to sell some existing investments and may be necessary to draw down a portion of your Roth IRA. Liquidating the investments will have some tax consequences (likely realization of capital gains) as will drawing down your Roth IRA. In general, I discourage clients from using retirement assets to fund anything that is *not* a retirement goal. You may wish to temporarily re-direct your 401(k) and Roth IRA saving to a bank account until you've accumulated about $30,000 of the needed $60,000. This should take about a year.

Retirement

Your retirement goal is currently 100% funded. However, this outcome assumes a straight-line return averaging 7.35% every year.[4] This assumption does not reflect the most likely reality because markets typically don't go straight up evenly over time. In this planning sessions I applied a Bad Timing Stress Test to assess how vulnerable your retirement plan may be to a market downturn in the year of your retirement.

[4] It also assumes you re-allocated your portfolio in line with your risk tolerance.

Education

Your education goal appears to be adequately funded if you implement the $5,000 a year savings recommendation. While it is tempting to put as much money as possible into a 529 plan to be certain that your goals will be funded, I generally discourage this. I recommend putting just enough into this account to cover four years of tuition, books, room and board and fees. There will be a variety of other expenses associated with college that can't be covered with 529 funds like a vehicle and certain extra curriculars like fraternity dues. It is wise to set aside assets in your brokerage that you can tap for some college related expenses.

Risk Management

You currently have a Group Term Life Policy through your employer with a death benefit of $160,000. Assuming that William is your only beneficiary[5] and that you wish to provide $26,667 a year to support him after your death, provide $22,110 a year for four years to fund college at his age 18, and provide $20,000 for final expenses you do not need any additional coverage at this time.

There are two things to consider in addition on this topic:

1) Minor children cannot inherit assets outright. You need to address this issue in your estate plan.
2) Your life insurance depends on your continued employment. It may be wise to purchase a privately owned policy, not tied to your employer. A 20-year term policy with a death benefit of $160,000 would serve your needs effectively.

[5] Meaning he will inherit your assets in addition to your insurance death benefit.

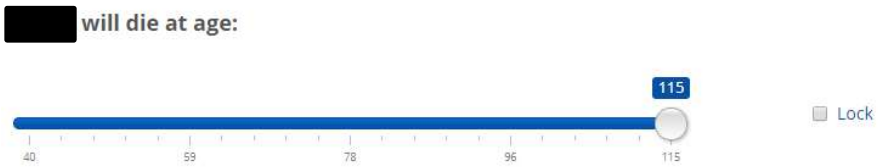
This document is intended to illustrate what a Fee Only Financial Planning Client may expect to receive as a Final Plan Report. This document does not reflect any actual client but does represent a typical set of case facts. It is intended for illustrative purposes only.

Stress Testing

Based on our discussions during your initial intake meeting, we formulated a suite of three key stress tests to answer your concerns around living too long, Social Security Benefit cuts, and retiring into a down market.

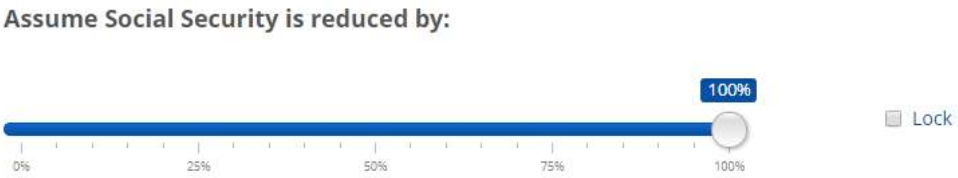
Living Tool Long

In this Stress Test we examine the impact of living longer than expected on your plan's overall probability of success. Even if you attained age 115 (highly unlikely), your plan's probability of success would stand at 77% which is within our desired Confidence Zone. Living too long is not a meaningful threat to your plan.



Social Security Benefit Cuts

In this Stress Test we examine the impact of cuts to your Social Security Benefits on your plan's overall probability of success. If your Social Security Benefits were cut by 100% (that is, they disappeared entirely) your plan would still have a 76% probability of success which is within our desired Confidence Zone. This is not a meaningful threat to your plan.



This document is intended to illustrate what a Fee Only Financial Planning Client may expect to receive as a Final Plan Report. This document does not reflect any actual client but does represent a typical set of case facts. It is intended for illustrative purposes only.

Bad Timing

This Stress Test allow us to assess the potential for plan failure if you retire in a year with bad market return. This analysis assumes a loss of -22.81% in the year of your retirement and a further loss of -7.72% in the following year. Each year after that is assumed to have an average positive return of 7.36%.[6] Applying this test does not lead to plan failure and is thus not a significant threat to your plan.

[6] These returns are consistent with your ability to tolerate risk and the level of risk recommended for you in this plan.

Conclusions & Key Recommendations

In summary, it appears that your Base Case planning scenario is reasonably sound. My key recommendations are:

- Open a Section 529 Plan for the benefit of William. Fund that account with $417 each month using the plans' automatic contribution feature.
- Consider suspending 401(k) and Roth IRA contributions until you accrue enough cash for a home down payment.
- Either continue or re-start (after you've saved for your down payment) making the maximum contribution to your employer 401(k) and to your Roth IRA.[7]
- Re-allocate your investable assets to reflect a more aggressive allocation of 97% stock and 3% cash.
- Explore the option of buying $160,000, 20-year term policy to guard against loss of coverage should you leave your current employer.

[7] At some point your income will exceed the IRS mandated ceiling for Roth IRA contributions. At that time you should open and begin to fund a Traditional IRA.