Financial Plan Summary
Prepared for
John & Mary Murphy
May 3, 2023

LPL Financial

CLIENT GOALS

- Prepare for retirement
- Organize portfolio
- Build wealth
- Purchase a home in Florida

ADDITIONAL NOTES

Age & Life Expectancy

John is 60 and Mary is 57. The assumed retirement age is 65 for both. The life expectancy being modeled is 100 for both.

Assumptions

General inflation is indexed at 2.5% and healthcare inflation is indexed at 5%. Excess cash flows are assumed to be spent. Using Federal and state (IN) tax assumptions.

Portfolio Rate of Return

The model is projecting an annual return of 4.6% on your portfolio.

Property Taxes

Property tax information was not provided. The mode assumes:

- Indiana Home - $3,889/year indexed at inflation (Zillow estimate based on provided address)
- Florida Condo #1082 – $2,135/year indexed at inflation (based on an average Florida property tax rate of approximately 1%).
- Florida Condo #1065 –$2,100/year indexed at inflation (based on an average Florida property tax rate of approximately 1%).

- Canada Summer Home - $2,722/year indexed at inflation (based on non-resident property tax rate of approximately 1%).

Rental Income

Rental income amounts for Florida condos is $32,000 per year. The model assumes each Florida condo generates $16,000 of rental income per year.

Expenses

- Insurance Premiums – $2,446/year.
- Mortgages – 37,572/year until loans mature.
- Property Tax - $10,846/year indexed at inflation.
- Living Expenses - $36,000/year indexed at inflation.
  - Living Expenses exclude liability payments, taxes, and health care which are separated into the appropriate sections.
- **Total - $86,864**

Medicare

The model assumes Medicare expenses of $4,500 indexed at 5% each beginning when you turn 65 until the end of the plan.

Summary

The scenarios compared in your plan include staying status quo (base plan) vs the proposed plan. Recommendations in the **proposed plan** (described in more detail later in the document) include:

1. Consolidate accounts.
2. Utilize excess cash flow more effectively by saving into your taxable investment account and paying down debt.
3. John contributes to his Roth 401(k).
4. John and Mary delay Social Security until age 70.
5. Roth conversions.
6. Review property & casualty insurance.
7. Review estate planning documents.
8. Long-Term care insurance.

The **proposed plan** is projected to increase your ending portfolio value by approximately $4 million (future value), $1.4 million (present value), and provide a very high probability of success.

Personal Wealth Management

Review cash flow and receive guidance for special situations (equity compensation, inheritances, etc.), major purchases, setting goals and how to fund them, and investment analysis

OBSERVATIONS

Net Worth

$2,630,000 Assets

$396,700 Liabilities

$2,233,300 Net Worth

2023 Estimated Cash Flows (Base Plan)

$394,000 Inflows

$288,160 Outflows

$105,840 Net Flows

Emergency Fund

John & Mary currently have approximately **$59,600** in cash reserves amongst their bank accounts and taxable investment accounts. Based on your expenses, 3-6 months of liquidity requires **$21,700 - $43,400**. Your emergency fund is well funded for your liquidity needs.

Portfolio Allocation

John & Mary currently have approximately $1,280,000 in investable assets among various retirement and taxable investment accounts. Your portfolio is allocated to approximately 65% equities and 35% fixed income.

Florida Home Purchase

The model projects purchasing a new home in Florida for $500,000 when John retires by paying 20% down, financing the remaining balance over 15 years at 5%, and property tax of $5,000 per year. Our analysis projects that the purchase of the new home does not affect your

Personal Wealth Management (Continued)

Review cash flow and receive guidance for special situations (equity compensation, inheritances, etc.), major purchases, setting goals and how to fund them, and investment analysis

ability to retire and that you would not need to sell your Florida condos in order to make this purchase.

RECOMMENDATIONS

Consolidate Accounts

To help simplify your financial life and adhere to asset allocations, consider a rollover of your qualified retirement plans to an IRA. This will give you more investment options, more control over your costs, and allow for easier management since you are not using multiple accounts.

Large Excess Cash Flow

John & Mary are projected to have large amounts of excess cash flow each year. Excess cash flow can be used more effectively for your financial plan.

- **Increase Taxable Account Contributions** – Based on your excess cash flow you can increase the amount you're contributing to your taxable investment account. The model projects increasing your taxable account savings from $29,500/year to $90,000 and still having excess cash flow.
- **Pay off Debt** – Our analysis projects paying off your current debt faster by paying an additional $2,000 per month towards your liabilities. The strategy is to apply the additional $2,000 to your highest-interest debt first and then reallocate that payment to the liability with the next highest interest rate. This strategy is projected to pay off your loans quicker and save you approximately $50,000 on interest payments.
- **Save for New Florida Home Down Payment** – Save some of your excess cash flow to fund the down payment of the potential purchase of a new Florida home.

Retirement Planning

Find comfort in planning for retirement by defining your goals and determining suitable strategies

OBSERVATIONS

Current Retirement Account Contributions

- John's 401(k) – Maximum ($30k) with no match
- John's PFIA 457(b) – $22,500
- John's SEP IRA – $6,000
- Mary's 401(k) – Maximum ($30k) with 3% match
- Taxable Account - $29,500
- Total annual savings of approximately $120,600 and a savings rate of 31%.

Social Security

The model assumes both of you taking Social Security income at full retirement age (67). John is expected to receive a benefit of $3,323 per month. Mary's Social Security statement was not provided and the software is using the system estimate.

Bear Market Stress Test

In this scenario, a bear market is defined as an immediate drop in equities by 30%. Our analysis projects that a bear market is **not** a threat to your financial plan.

Projected Retirement Withdrawal Rate

By industry standards a healthy withdrawal rate in retirement is 4% or below.

Base Plan – Withdrawal rate ranges from 2.5 to 8.2%. The high withdrawal rate is due to large required minimum distributions during retirement.

Proposed Plan – Withdrawal rate remains below 3%. Decreased withdrawal rate results from converting some of your qualified accounts to a Roth IRA. Age 65 shows a large withdrawal for down-payment of Florida home. *See tax section regarding Roth conversion.*

Retirement Planning (Continued)

Find comfort in planning for retirement by defining your goals and determining suitable strategies

Retirement Plan on Track

Based on the information you have provided and the reasonable assumptions made you are projected to fully fund your retirement. This is because you have lived on less than you make and diligently saved money. To continue on this path, I recommend you continue to save money, update and review your plan regularly and protect against risks such as disability, premature death, and lawsuits.

RECOMMENDATIONS

John's Contributes to Roth 401(k)

To increase the tax-free portion of your portfolio for retirement, split your contributions between Roth and traditional for your 401(k). Roth contributions are made after tax and do not allow for current-year tax deductions, but assets can potentially grow and be withdrawn tax-free in retirement. A Roth 401(k) is also not subject to required minimum distributions.

Delay Social Security

Due to John's pension and Mary continuing to work you can both consider delaying Social Security benefits until 70. Delaying Social Security allows you to realize your maximum benefit amount while allowing a window where you would be in a lower tax bracket. This allows for an opportunity to convert some of your qualified accounts to a Roth IRA and increase the tax-free portion of your portfolio.

Retirement Age Analysis

Your financial plan is in great shape! We analyzed your financial plan for Mary retiring at age 61 in the same year that John is assumed to retire. Our analysis projected that your finical plan maintains a very high probability of success. In fact, if both of you were to retire this year your plan has a very high probability of success!

Insurance Planning

Look at any gaps in coverage and reduce personal risk

OBSERVATIONS

Property & Casualty Insurance

You have not provided your property and casualty insurance. One of the biggest obstacles to creating wealth and retiring comfortably can be a lawsuit. Properly structuring this insurance can help protect you from a frivolous lawsuit.

Life Insurance

John – Has group life insurance with a death benefit of 3x of his salary ($540k). He also has a Variable life policy with a death benefit of approximately $37k.

Mary – Has a term life policy with a $250k death benefit. The policy also includes a death benefit of $20k ending at age 100.

Our analysis projected that with current coverage amounts a premature death to either of you is **not** a risk to your financial plan.

Long-Term Care Insurance (LTC)

John & Mary do not have long-term care insurance. The long-term care stress test is $50,000 a year indexed at 5% for 5 years each. The model projected a long-term care event is a threat to your financial plan. The older you get, the more costly LTC insurance will become due to potential health issues and other factors.

RECOMMENDATIONS

Review Property & Casualty Insurance

It is important to review your property and casualty insurance on a regular basis. High-net-worth individuals are bigger targets for liability lawsuits. Umbrella Insurance provides protection against creditors for claims in excess of your normal homeowners and auto policy coverage. It is recommended to have a minimum of 80% coverage on your properties and an Umbrella policy that covers 1x your net worth.

- *Speak with your insurance agent to ensure that you're properly protected.*

Insurance Planning (Continued)

Look at any gaps in coverage and reduce personal risk

Long-Term Care (LTC)

Long-term care services are expensive and, without proper planning, can quickly use up a lifetime of savings. LTC insurance can be helpful to relieve the burden of care from your loved ones and provide you access to a professional coordinator during a time of crisis.

Long-Term Care (LTC) coverage options:

- **Traditional LTC Policy** - This type of policy can assist clients with health expenses related to an assisted living facility, nursing home, or in-home care. Benefits can help offset these large expenses associated with a client's deteriorating health or inability to do everyday activities.
- **Life Insurance with a LTC Rider** - An added benefit to a hybrid policy (a life insurance policy with additional LTC benefits) is that your beneficiaries would receive a cash payout, should the LTC rider not be utilized. The death benefit would provide tax-free liquidity to your estate, which would be helpful to meet final estate costs without having to liquidate assets that would cause a taxable event.
- **Save Excess Cash Flow** – Considering you're projected to have large excess cash flows in retirement, developing a savings strategy can offset the risk of an LTC event and possibly allow for the ability to self-insure against the risk of long-term care. A combination of insurance and savings can be the best course of action for mitigating this risk.

Estate Planning

Discover opportunities to pass wealth to future generations effectively

OBSERVATIONS

Estate Documents

You have not provided any estate planning documents.

Review estate planning documents, including wills, trusts, and beneficiary designations, is recommended to ensure they reflect current objectives and family legacy goals.

- Beneficiaries
- Durable Power of Attorney
- Health Care Power of Attorney
- Final Expenses
- Living Will

RECOMMENDATIONS

Estate Plan Checklist

Approximately every 3-5 years or when life changes/legislative changes occur, we recommend you meet with an Estate Planning Attorney to update your personal Estate Plan. This would include executing your Last Will and Testament, a Living Will (i.e., Advanced Medical Directive), Healthcare Power of Attorney (HPOA), and Financial Power of Attorney (FPOA) documents. If the benefits outweigh the costs, you might consider a Revocable Living Trust to avoid the often lengthy and costly Probate process. Lastly, verify the designated beneficiaries on all of your accounts and insurance policies. Completing these items will ensure your legacy wishes and other directives are met.

- *Consult your legal and tax advisors before implementing any strategies described. If the listed documents are not already in place it is important to establish these documents.*

Action Plan

Take the steps to secure your financial future

Action Item	Target Date	Accepted
Consolidate Accounts Consolidate your accounts to simplify your financial life by rolling over qualified accounts to an IRA.	In 2023	☐
Increase Savings to Taxable Investment Account Utilize excess cash flow more effectively by increasing your contributions towards your taxable investment account.	In 2023	☐
Pay Down Debt Utilize excess cash flow more effectively by paying down debt quicker and saving on interest.	In 2023	☐
John Contributes to Roth 401(k) Increase the tax-free portion of your portfolio by contributing to your Roth 401(k).	In 2023	☐
Review Property & Casualty Insurance Speak with your insurance agent to ensure you're properly protected.	In 2023	☐
Consider Long-Term Care Insurance Speak to an insurance agent to see what coverage is available to you and at what cost.	In 2023	☐
Estate Plan Checklist Reference the Estate Planning section for a list of estate documents that will allow your legacy wishes and other directives to be met.	In 2023	☐
Begin Discussion About Roth Conversions Begin a discussion regarding the benefits and risks of Roth conversions. Consult with your CPA before making a Roth conversion.	In 2023	☐
Delay Social Security Consider delaying Social Security until 70 to realize your maximum benefit amount and open a window for potential Roth conversions.	At Retirement	☐