Sarah and Mike’s Household, May 2024

Sarah Smith (41), Mike Gantt (45), Isabel Smith-Gantt (4), Teddy (the Dog, 3)

TOP JOINT GOALS

1. Adjust for new cash flow impact with the birth of a **second child** in 7 months.
2. **Renovation fund** plans to expand current 2 bedroom to 3 bedrooms within 5 years.
3. Stay on track to hit your **freedom number** by 2040 based on the retirement plan.
4. Stay on track to finance **college education** for Isabel in 14 years (2038) and the newborn in 18 years (2042).

ACTION PLAN FOCUS

- [ ] Reallocate **$1,000** of monthly cash flow for the average additional expense for the newborn, based on location benchmarks.
- [ ] Leverage surplus **$47,546** and move **$87,500** emergency savings to 5% yield savings account, minimize renovation loan in 5 years.
- [ ] Maintain current 401(k) & IRA savings rate, consider asset allocation to a **Growth** mix.
- [ ] Fund 1/3 of private school college education or 100% in-state public, target **$150,000** per child. Increase 529 savings to **$1,000**/month.

NET WORTH & FREEDOM $

$736k
Net worth

$736K net worth, on track to hit **$2.796M** by the 2040 target date with annual savings of **$17,000**.

Balance Sheet

Bank	$50,000
Invested assets	$550,000
Real estate assets	$800,000
Life insurance cash value	$0
Other assets	$0
Credit cards	$4,000
Mortgages	$595,000
Home equities	$0
Student loans	$65,000
Other debts	$0
Net worth	**$736,000**

CASH FLOW

Annual Net Income:
$170,000

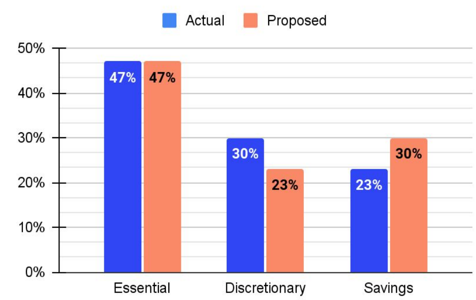
Current savings of **23%** is healthy and above the **20%** target. Seek to reallocate discretionary spending to **30%** goal-based savings.

Monthly Net Income:
$14,167

Essential Expense:
$6,659

Discretionary:
$4,250

Savings:
$3,258



AREAS OF OPPORTUNITY

10%
Effective federal tax rate

Emergency Fund. Congrats! Your emergency fund is healthy at **$87,500** and higher than your 6-month essential expense target of **$39,954.** Save the **$47,546** surplus for the renovation goal. Move funds to a 5% yield savings account to earn **$4,375+** more per year.

Insurance. Health and auto insurance are **on track** for the household. Basic life and home insurance are in place, but a **deeper assessment of coverage** limits is recommended. Umbrella liability insurance should also be considered to protect your growing wealth from liability risk.

Taxes. Your effective federal tax rate is **10%**, which is highly tax efficient. You have opportunities to maximize tax savings further with increased retirement & HSA contributions, along with new federal home energy rebates.

Trusts & Estates. Though you have a basic will in place, you are **not fully covered** with the necessary protections, e.g., health proxy, power of attorney, a living trust. We recommend a full assessment and execution plan.

GOAL 1 - ADJUST CASH FLOW FOR NEWBORN IN 7 MONTHS

Benchmark the new child expense. The average additional monthly household expenses per child in your area is $1,000.

Reallocate $1,000 of current discretionary expenses. Total discretionary expenses total **$4,250.** There's opportunity to re-allocate from some of the larger current spend areas such as auto and transport ($700), dining out ($700), entertainment ($400), health and fitness ($200), shopping ($500), and uncategorized ($500).

ACTION PLAN	RESULTS
1. Terminate the **Equinox membership** and exercise outside, in your garage, or on your treadmill instead.	= Free up **$200** a month by cutting the Equinox membership.
2. Sell your **10-year old gas-powered Volvo** that requires a lot of maintenance expense. Take advantage of new $7,500 EV federal tax rebates and get a new EV lease at $0 or low down payment.	= If you can get a 3-year EV lease at $250 per month with no / low down payment and no maintenance costs, that frees up **$400** per month from gas and maintenance expenses.
3. There is a lot of opportunity to cut **dining out** expenses from $700 (approx. 7 times) to $300 a month (2 to 3 times) and you still can enjoy life. Plan meals at home and track this cut.	= Free up **$400** per month by cooking more at home and dining out less. With a newborn, you'll be home a lot anyway.

GOAL 2 - FUND HOME RENOVATION IN 5 YEARS

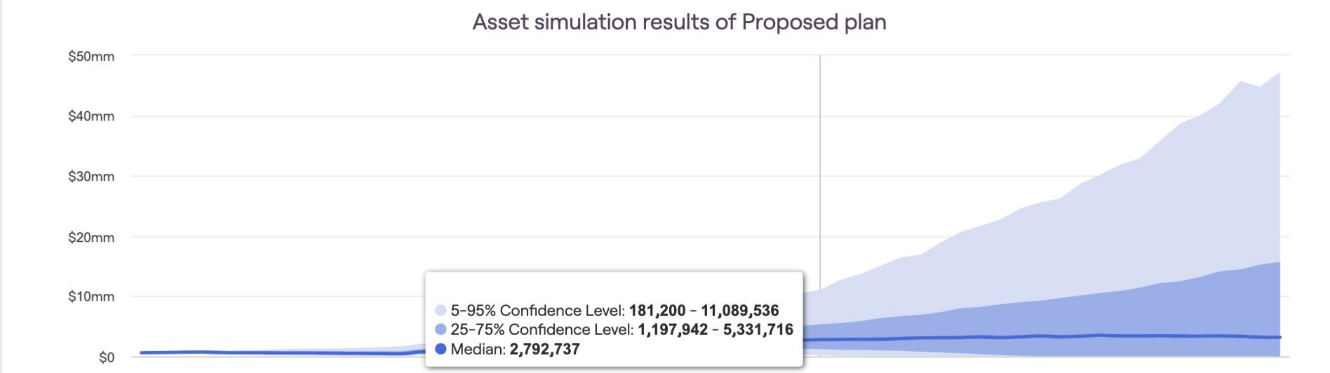
Benchmark the home renovation expense. The average cost of a one-bedroom addition to a home in your area is **$140,000.**

Leverage surplus savings and tap home equity for the renovation loan. Additional interest at 5% annual yield from the **$87,500** emergency fund in 5 years equals **$24,174**, plus the **$47,546** surplus will net you **$71,720** for the renovation. You will have sufficient home equity to get a home equity loan for the remaining **$68,280** to fund the planned renovation.

ACTION PLAN	RESULTS
1. Move the **$87,500** emergency fund, including the surplus **$47,546** savings, to a **5%** high yield savings account.	= You will have **$71,720** to offset the cost of the renovation loan in 5 years. This includes the **$47,546** surplus and the interest of **$24,174**, while retaining the 6-month emergency fund.
2. Keep your **credit score** at or above your current 820 score. Monitor it by obtaining a credit report from each of the three credit bureaus — Experian, Equifax, and TransUnion. By federal law under the Fair Credit Reporting Act (FCRA), these reports are free and can be acquired at AnnualCreditReport.com.	= With an 820 credit score or higher, you will be able to get the lowest interest rates available for a home equity loan to fund your goal. Every 1% reduced interest rate means **$10,781** in savings on a **$68,280** loan.

GOAL 3 - STAY ON TRACK TO FREEDOM / RETIREMENT BY 2040

Your freedom number. Based on scenario modeling using key assumptions - planned goals / lifestyle, income sources such as social security, home downsizing, geographic location, benchmark forecast monthly expenses, timeline for freedom / retirement - you are targeting **$2.796M (with $2.2M investable assets) by 2040**.

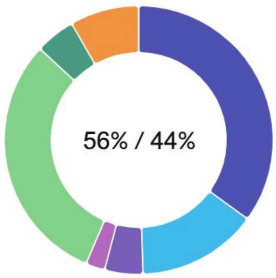


Your monthly tax-deferred savings. You will need to consistently contribute at least **$17,000** per year to tax-deferred household savings accounts. You should also consider maxing out your annual 401(k), 403(b) (at $23,000 per person), IRA contributions ($7,000 per person),and HSA accounts ($8,300 for families) to optimize tax deductions.

Your asset allocation mix. Your current allocation is a **Moderate** mix for likely annual return of **7.4%**. With the retirement timeline still far off, consider a **Growth** mix of **70% equities, 30% fixed income,** for a higher likely rate of annual return at **8.3%**.

Current allocation

All Accounts



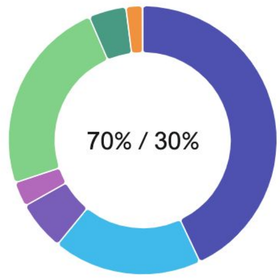
Equity / Fixed Income

Annual return: 7.4%
Standard deviation: 10.6%

35%	U.S. Equities	43%
14.5%	International Equities	17.9%
4.6%	Emerging Markets	6%
2.3%	Real Estate	3%
30.5%	U.S. Bonds	23.6%
4.8%	International Bonds	4.5%
8.3%	Cash	2%
0%	Other	0%

Target allocation

Growth



Equity / Fixed Income

Annual return: 8.3%
Standard deviation: 12.7%

ACTION PLAN

1. Maintain current **401(k), 403(b) and IRA** savings rates, If you can find savings from discretionary expenses or additional income, maximize contributions.

RESULTS

= You are on track to reach your **freedom money goal by 2040**. Additional savings will increase that likelihood and increase current income by reducing tax liability now.

GOAL 4 - REACH KIDS EDUCATION FUND TARGETS BY 2038 & 2042

1. **Benchmark the cost of education.** College cost estimates for 2038 are **$155,492** for a four-year, in-state public college and **$435,486** for a private college.

2. **The one-third rule.** You should consider funding education with this rule - 1 / 3 of the cost from savings, 1 / 3 from current income during the kids' college years, and 1 / 3 from loans or other sources. A recommended approach is to target savings of at least **$300,000** by the target date (that's $150,000 for each child). To stay on track, that's close to **$1,000 per month** (approx. $500 per month, per child) starting from birth. Should private college be the best path, you can take the one-third rule approach to financing education. Should a four-year, in-state public college be the best path, you will have education fully covered.

ACTION PLAN	RESULTS
1. Reallocate **$1,000 monthly discretionary spending,** e.g., from entertainment ($400), shopping ($500), or uncategorized expenses ($500).	= Allows **existing cash flow** to move towards the household priority of funding the kids' education.
2. Find additional sources of **$1,000 monthly income** such as a raise or side hustle to allocate to the education fund.	= Leverages **additional cash flow** to put towards the household priority of funding the kids' education.
3. Set up automated **$500** monthly payments to **Isabel's 529.** There is currently $1,000 in the fund since her birth 4 years ago. Consider adding $50 extra to make up for the past 4 years.	= By automating this payment, you can stay on track to fund **Isabel's education by 2038.** At $500 a month, a 6% return rate for 14 years yields $135,000, at $550 it yields $147,000.
4. Open a separate **529 for the newborn** and set up automated **$400** monthly payments.	= By automating this payment, you can stay on track to fund the **newborn's education by 2042.** At $400 a month, a 6% return rate for 18 years yields $155,715.