Sample Financial Plan

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Revised: 12/31/2020

Signed: ____ Date: _________________

Signed: ____ Date: _________________

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Goals

- We will like to become debt free including our mortgage by 2030.
- We would like to be financially independent and able to retire by age 65.
- We would like to be able to pay for 1 year of our children's higher education.

Roadmap

- We will seek to save $1,000 in emergency savings.
- We will create a spending plan to give every dollar a job.
- We will seek to pay off all consumer debt other than our house.
- We will seek to increase emergency savings to 3 months living expenses.
- We will seek to save for knowable or plannable expenses.
- We will seek to pay our mortgage early
- We will seek to save for retirement
- We will seek to invest for the future

Giving

- As stewards of resources that God has entrusted to us, we will strive to honor God through charitable giving first to our local church then to other charitable initiatives.
- We will seek to tithe a minimum 10% of our gross income to our local church (Riverview Church, Novelty, OH)
- We will give via automatic bank payment on the first of the month.
- We will annually discuss what further giving opportunities that we will seek.

Spending

- Understanding that a budget is a reflection on our priorities and what we treasure, we will write/update a budget annually to provide a plan for appropriate spending and stewardship of God's resources entrusted to us. (Appendix A).
- We will roughly base our budget off of the 50/30/20 rule (50% non-discretionary, 30% discretionary, 20% savings)
- We will budget based on a low estimate of income (i.e. base salary not including bonuses). When we receive bonus income we will discuss the most appropriate use of these funds.
- We will track our spending at regular intervals to ensure appropriate stewardship of the resources that God has entrusted to us.
- We will strive to *NOT* use debt to make major purchases (i.e. automobiles, appliances or vacations where we do not have cash to backup the purchase.
- We will use credit for purchasing convenience and mortgages.
- All credit cards must be paid in their entirety each month.
- We will strive to minimize the number of credit cards we use.

Debt

General Principles

- Understanding that debt is ultimately a matter of contentment, we will not use debt to purchase items that we cannot afford.
- We will not utilize debt vehicles (i.e. HELOC, pay-day loans, etc.) to provide additional monthly cash flow.

Credit Cards

- We will use credit cards as a matter of purchasing convenience and online purchasing security only if we have the money to completely pay monthly statements.
- We will pay our credit card statements in full every month. We will not carry over a balance from month-to-month

Current Debts

Mortgage

- Current Mortgage: ***XYZ*** Bank; Principal $225,000; Rate 3.85%; Term 30 yrs fixed; Monthly Payment $1,054.82.
- We will seek to make additional payments toward principle of $300/month.
- We seek to pay our mortgage in full by 2030.

Car Loan

- Current Loan: ***ABC*** Bank; Principal $30,000; Rate 5%; Term 5 yrs; Monthly Payment $566.14
- Remaining principal balance $10,568
- We will pay off the car loan within 6 months.
- When we complete paying our car loan, we will save $500/month so that we can pay cash for future vehicles.

Student Loans

- Current Loans: Original principal balance total $20,000. Rates vary based on loan. Monthly payment $300
- Remaining principal balance $11,602
- We will refinance all non-subsidized loans into a consolidated loan.
- We will continue to pay our loans at the current minimum payment of $300/month plus an extra $100/month.

Home Ownership

- We will seek to purchase a home when our financial and geographic position has stabilized. Until then, we will rent.
- When we purchase our home, we will shop for competitive fixed mortgage rates at local lenders and utilize a minimum down-payment of 20% to avoid PMI
- We will seek to make regular early principal payments with a goal of mortgage repayment by 2030.
- We will not utilize a home-equity line of credit (HELOC) to provide cash to purchase items we cannot otherwise afford through monthly cash-flow or savings.

Savings:

Emergency Savings

- We will seek to save initially $1,000 in emergency savings to be used for large unforeseen circumstances.
- When other financial priorities are met, we will seek to increase our emergency savings to 2-3 months of living expenses (*be specific with a dollar amount here*)
- We will keep our emergency savings in cash or liquid money market funds (*be specific i.e. 50% Cash, 25% FDRXX, 25% FOMXX*).
- If we utilize emergency our emergency funds, we will pause all other financial priorities (*list exceptions that are higher priority*) until we replenish up to our goal balance.

Other Savings

- We will save cash for short-term, knowable, plan-able expenses
    - Examples include future car, annual tax payments, vacation, etc.
- Funds will be kept in a separate bank account or brokerage account.
- Savings will be kept in cash or liquid money market funds (see above)

Children Education Expenses

- We will seek to save money to help with our children's higher educational expenses.
- Money will be saved in our state specific 529 fund to capitalize on state income tax credit
- We will seek to save $2,000/year per child.

Insurance:

- We will use insurance products as a protection against financial catastrophe or unexpected, excessively large expenses.
- To the extent that it is prudent and legal or we are financially able we will seek to self-insure.
- We will not use insurance products as investment vehicles or means of tax protected saving.

Life insurance

- We will maintain $1,000,000 on *(husband)* and $250,000 on *(wife)* of term life insurance until such a point that we have assets (excluding retirement accounts and home equity) in excess of $1,000,000.
- Life insurance disbursement should be utilized to pay existing debts and/or invested to provide an annuitized income. Understanding an approximate 4% safe withdrawal rate, $1,000,000 should provide approximately $40,000 of annual income.
- Understanding that whole life insurance is a poor investment vehicle, we will not include whole life insurance in our financial portfolio.

Disability Insurance

- We will maintain a total of $5,000 disability insurance on *(breadwinner)* until such time as the term expires or we are able to individually self-insure.
- We will reevaluate our monthly insurance needs every 5 years and adjust coverage accordingly.

Health Insurance

- We will maintain appropriate health, dental and vision insurance coverage on all family members.
- Children shall be removed from health, dental and vision coverage when they are self-insured or turn 26.
- We will re-evaluate our health insurance coverage annually during the open enrollment period.

Homeowners Insurance

- We will maintain homeowners insurance on our residence to cover the cost of replacement of the home, property and outbuildings.
- We will maintain valuable property insurance for valuable items not covered by our homeowners insurance policy with a value in excess of $5,000

Auto Insurance

- We will maintain comprehensive auto insurance on all vehicles until such a point that the value of the vehicle is less than $10,000.
- Once the value of a vehicle is less than $10,000 we will change our coverage to liability only.

Umbrella Insurance

- We will maintain a minimum of $1,000,000 umbrella insurance as a protection against household liability.
- For Asset Protection for additional details regarding Umbrella Insurance

- We will reevaluate our liability needs every 5 years.

See Appendix B for current insurance policies

Retirement

- We will seek to be financially independent by the age 65 to allow for retirement.
- We will annually maximize contributions to our employer-based retirement account to capitalize on the employer based match.
    - *Work Account: FV(0.08/12,25*12,−8000/12,−60000,0)=$1,074,428*
- We will maximize annual contributions to ROTH IRAs for both ***Husband*** and ***Wife*** via direct ROTH IRA contributions.
    - ****Husband*** ROTH: FV(8%,25,−6000,−30000,0)=$695,719*
    - ****Wife*** ROTH: FV(8%,25,-6000,−30000,0)=$ 695,719*
- We will maintain a $0 balance by 12/31 in our rollover IRAs annually.
- We will *NOT* utilize whole life insurance as a retirement asset
- We seek to save enough to generate a minimum annual retirement income of 80% peak earnings income.
    - 80% x $80,000 = $64,000
    - Projected total retirement savings at the age of 65 is approximately $2,465,866
    - Based on 4% annual distribution of above, expected retirement income is $98,635.

Investing

- We strive to minimize the effects of taxes and expenses on our investment returns.
- We strive for a “buy and hold” using tax-efficient, low cost index funds
- We will *NOT* seek to engage in market timing.
- We will *NOT* panic and sell securities due to market conditions
- Our primary investment vehicles will be stock mutual funds and bonds mutual funds, preferably within tax sheltered accounts
- We will strive to allocate assets between accounts in the most tax-efficient manner possible.
- In general, we favor passively managed investments over actively managed investments.
- We will strive to achieve a real return of at least 8% per year, averaged over our investment lifetime.
- We will seek to maintain an asset allocation as follows:
    - 45% US Equity
    - 20% International Equity
    - 10% Real Estate
    - 20% Bonds
    - 5% Cash
- We will periodically rebalance according to this allocation according to the following strategy:
    - Purchase of new assets
    - Sale of capital loss
    - Gifting of long-term appreciated shares through a donor-advised fund
    - Sale of long-term shares
- We will reassess our asset allocation every 5 years.

Equity

- We will invest in index funds to maximize diversification and minimize cost and tax.
- We will not invest in individual stocks
- We will prioritize US based index funds across our equity holdings
- We will allow for a mid-cap and small-cap tilt

Bonds

- We will invest in bond index funds.
- We will gradually increase our bond allocation with our age.
- We will primarily hold our bonds within our tax-advantaged accounts.
- In taxable we will prioritize Municipal Bond Funds.

Real Estate

- We will invest in REIT Index Funds and passively owned real estate.
- We will hold our REIT index funds in our tax advantaged accounts.

Estate Planning

- We will establish a Will to gather and direct our assets into a Trust upon our deaths.
- We will establish a Trust to hold and distribute our assets to designated beneficiaries upon our deaths.
    - Trustees: ***
- The Guardians of our minor children will be ***
- Primary beneficiaries and secondary beneficiaries shall be set for all of our accounts.
    - Unless otherwise directed, the primary beneficiary will be a spouse.
    - Unless otherwise directed, the secondary beneficiary will be the Family Trust
- We shall update our estate plan and documents every 5 years
- See Appendix C for estate planning documents.

Changes

- This investment plan shall be updated annually with any changes requiring agreement of both *** and ***.
- Any changes to this plan during the year will require an agreement of both *** and ***.
- Any changes to this plan require a 30 day waiting period to enact.