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# FINCRAFTERS

We specialize in

**Retairment Statergies, IUL, Annuity, LTC and Life Policies**

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## John's Personal Finance Report

Report generated on {{date}}

## TOPICS

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Disclaimer : This material does not constitute tax, legal or investment advice. Always, consult with your licensed advisors regarding your personal circumstances.

## SNAPSHOT OF YOUR FINANCES

Current view of your yearly cash outlay and tax diversification of assets

### ANNUAL CASH FLOW

Income	\$160,000
Living Expense	\$50,000
Housing	\$36,000
Income Tax	\$40,000
Savings	\$40,000



- For a good balanced budget, the four categories should be roughly equal
- Relative to your income,
  - You have a healthy savings rate
  - You have higher living expenses

### ASSET ALLOCATION

Pre-Tax (e.g., 401k, Traditional IRA)	\$160,000
Post-Tax (e.g., 401k, Traditional IRA)	\$50,000
Taxable (e.g., 401k, Traditional IRA)	\$36,000
Real estate (e.g., 401k, Traditional IRA)	\$40,000
Total	\$40,000



- Reduce buildup of Pre-Tax asset by reallocating savings to Post-Tax should be roughly equal
- Buying a house will reallocate Taxable asset to Real Estate bucket

## LIVING EXPENSES DEEP DIVE

You are spending 34% less than the benchmark



- Your expense items in the table are color coded relative to the benchmark.
- Your Restaurant, Outdoor Entertainment and Supplies expenses are higher than the benchmark.

MONTHLY EXPENSES		BENCHMARK	YOU	VARIANCE
Utilities	Internet	\$50	\$55	9%
	Phone	\$50	\$55	9%
	Electricity & Gas	\$50	\$55	9%
	Water, Sewer & Trash	\$50	\$55	9%
Car	Insurance	\$50	\$55	9%
	Maintainance	\$50	\$55	9%
	Loan/Lease Payment	\$50	\$55	9%
	Gas	\$50	\$55	9%

Food	Groceries	\$50	\$55	9%
	Restaurant	\$50	\$55	9%
Personal	Gym / Wellness	\$50	\$55	9%
	Salon	\$50	\$55	9%
	TV	\$50	\$55	9%
	Outdoor Entertainment	\$50	\$55	9%
Medical	Insurance	\$50	\$55	9%
	Copays	\$50	\$55	9%
Home Maintenace	Gym / Wellness	\$50	\$55	9%
	Salon	\$50	\$55	9%
	TV	\$50	\$55	9%
Kids	Kid’s Classes / Summer Camp	\$50	\$55	9%
	Day Care	\$50	\$55	9%
Cash Transaction		\$50	\$55	-14%
Monthly Total		\$50	\$55	-14%
Annual Total		\$50	\$55	-14%

Annual Expenses	Benchmark	You	Variance
Travel	\$67	\$50	9%
Travel	\$67	\$50	9%
Annual Living Expences	\$50	\$55	9%

Annual Living Expenses	\$50	\$55	9%
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## TAX-FREE RETIREMENT SCENARIO

Your Human Capital is \$4.2M and Financial Capital is \$3M



- Human Capital is your lifetime earning potential. It declines with age.
- Financial Capital is your asset value. It usually grows during your working life and declines during retirement.

WHEN WORKING		RETIREMENT YEARS	
Current Age	40	Want to Retire at	40
Single/Couple	1	Life Expectancy	95
Annual Income	\$160k	Minimum Intended Legacy	\$220k

Savings Rate	21%
Pre-Tax Asset	\$350k
Post-Tax Asset	\$50k
Taxable Asset	\$150k
Future Age if Buying a Prime Home	45
Down Payment Needed for Primary Home	\$250k
Income growth	3.6%
Market Growth During Working Years	8.0%

Market growth during Retirement Years	\$220k
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<b>Lifetime Inflation</b>	<b>2.0%</b>
Model in Real or Nominal terms(Enter 0 or 1)	1

## TAX-FREE RETIREMENT RESULTS

**Your max inflation-adjusted retirement income is \$119K of which 43% is tax-free**

## Income

### WHEN WORKING

Annual income before retirement	40
Lifetime income	40
Optimal allocation of retirement savings to Pre-Tax	40

### WHEN RETAIRED

Annual withdrawal as a % of pre-retirement income	40
Annual withdrawal as a % of assets at retirement	40
Tax-free portion of annual withdrawal	40

## Asset

	NOW	AT RETIREMENT	AT EOL
Pre-Tax	\$356k (64%)	\$356k (64%)	\$356k (64%)
post-Tax	\$356k (64%)	\$356k (64%)	\$356k (64%)
Taxable	\$356k (64%)	\$356k (64%)	\$356k (64%)
Total	\$356k	\$356k	\$356k

## FINANCIAL PROJECTION DURING WORKING YEARS

[illegible]





25	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K
25	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K
25	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K

## RECOMMENDATIONS

- Your savings to Taxable accounts exceeds that of Pre-Tax + Post-Tax at age 48. That is a good time to reallocate assets from Taxable to Post-Tax using methods described below.
- Even with optimal allocation of savings your Pre-Tax is still too large. To maximize your tax-free retirement income your Pre-Tax asset should be at ~\$294K when you retire at age 62. Reallocate out of Pre-Tax using methods described below.
- Generate additional streams of tax-free retirement income by,
  - Investing in an Annuity product from within Roth IRA account
  - Investing in an IUL product
  - Social security benefits will also not be taxable in a near tax-free retirement scenario

## ADDITIONAL INSIGHTS

To achieve optimal allocation of assets between different tax buckets you can,

- Move assets from Pre-tax to Post-tax bucket using Roth Conversion
- Move assets from Pre-Tax to Taxable bucket using SEPP or Rule 72(t)
- Move assets from Taxable to Post-Tax bucket using IUL investment & After-Tax 401k plan

## FINANCIAL PLANNING CHECKLIST

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### Cash Flow

- Be aware of your expenses. Do they add up to your income minus savings?
- Keep your financial capital on track
- Know your human capital

### Retirement Planning

- Strive for near 0% income tax rate
- Understand Social Security benefits and when to avail them
- Plan to meet living expenses with tax-free annuity plan
- Keep a cash cushion using IUL and home line of credit
- Estimate your maximum withdrawal amount as retirement income
- Understand retirement risks arising from market condition, government behaviors, personal situation, etc.

### Estate Planning

- Prepare a Will and Living Trust to avoid probate
- Think about creative ways to reduce estate tax, such as ILIT for HNW individuals
- Structure appropriate trust such as CRT when making sizeable charity contributions

### Real Estate

- Understand the economics of home buying (rent vs. buy, PITI, etc.)
- Understand 1031 exchange for investment properties
- Don't get overexposed to real estate as an asset class

### Life Insurance

- Carry adequate life insurance to

### Portfolio Planning

- Diversify across asset classes (stocks, bonds, etc.), sectors (tech, finance, etc.), and stocks
- Rebalance annually if you maintain a fixed allocation portfolio
- Neutralize capital gains by selling select lossy positions before year end

### Tax Diversification

- Shelter savings in taxable accounts with tax-free IUL product
- Utilize tax-free savings vehicles such as Roth 401k, Roth IRA and HSA
- Limit accumulation in tax-deferred accounts such as 401k and Traditional IRA
- Use Roth conversion to periodically transfer excess funds from tax-deferred to tax-free account

### Healthcare

- Enroll in HDHP to save using tax-free HSA
- Plan coverage for debilitating conditions in old age using a LTC policy or living benefits from IUL or Annuity
- Enhance coverage with a Medicare Supplement policy

### College Planning

- Estimate college costs & develop a savings plan
- Know that 529 plan withdrawals are tax-free, but also count against financial aid
- Understand FAFSA process and how the underlying components affect financial aid

### Learn Math

- Learn how money grows by understanding the effect of inflation,

cover the living needs of your family  
while you are working

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taxes, compounded growth, volatility,  
etc.

- Learn the elegant Rule of 72