

## Example of Topic-Specific Financial Planning

Hi Kyle,

We enjoyed meeting you the other day and hope you found it helpful. Below is a summary of what we discussed and our recommendations:

- **Emergency Fund:** We recommend maintaining your emergency fund at 3-6 months of your living expenses. Your current balance of about \$30k would be sufficient given the budget we reviewed, however increasing your emergency reserve can be a good strategy to offer comfort for variability in pay and we recommend increasing your cash for any short term spending goals (expected baby costs, etc.). Also remember that any time you withdraw from your emergency reserve to replenish it in a timely manner.
- **401k Contributions:** You and your wife are currently maxing out the matches your respective employers offer. Being that it appears you have the cash flow to do so, we recommend finishing maxing out your 401ks to \$18,000 for each of you. Contributing \$36,000 to your 401ks will reduce your current year's taxes due by approximately \$13,230 ( $\$36,000 * (33\% \text{ Federal Tax Rate} + 3.75\% \text{ State Tax Rate})$ ). You can use this tax savings to assist your cash flow and save in other accounts as well, like your education savings or brokerage accounts.
- **529 Contributions:** We calculated that if you and your wife wanted to fully fund your child's college education using the current average cost of private school, you would need to save about \$13,000/year, assuming your contributions increase at 3% each year with inflation (see attached document). A benefit of using an Illinois 529 plan is you receive an Illinois state tax deduction for contributions up to \$10,000 per person per year (\$20,000 per couple). We recommend looking into a Bright Start plan and investing in an age based index. We do not recommend the pre-paid tuition option as these plans do have limits on what schools the credit will apply to.
- **Excess Cash:** You have a few options with your excess cash flow after you've saved for your emergency fund. If you are looking to invest for retirement, we recommend making an after-tax IRA contribution and converting your traditional IRA contributions to a Roth. Only do perform these Roth conversions if there are very little gains in your IRAs to minimize the tax consequence of doing the conversions. If you want to invest for intermediate-term goals (>5 years into the future), we recommend opening a brokerage account at your desired custodian with an open platform. If your 401ks are at XYZ brokerage co., you may want to open a brokerage account with XYZ brokerage co. to keep your accounts consolidated under one custodian for ease of management. All you would need to do is go to XYZ brokerage co.'s website and open an account. There is no cost to do so. If your goals are very short-term (within a year or two), we recommend using cash for those expenses.
- **Budgeting:** We recommend looking into You Need a Budget (YNAB) if you are interested in more detailed budgeting and staying organized and on track with your financial goals. It has a bit of a learning curve, but we believe you and your wife would find it worthwhile. The link to their website is [www.youneedabudget.com](http://www.youneedabudget.com).

- **Debt:** We recommend paying the minimum payments on loans with the lowest interest rates, such as your mattress and car loan, and making higher payments to credit cards with high interest rates. Ideally we recommend paying those off each month to avoid being hit with 20%+ interest. Using a budgeting software can help you better plan and save for expenses to potentially avoid carrying balances on your credit cards. If you need access to credit, one option is to look into opening a home equity line of credit once you've built up enough equity in your home, which will have a lower interest rate than a credit card. Also, even if you have the excess cash flow, we still recommend only paying the minimum on your mattress and auto loans as their rates are so low and you would likely be able to earn more by investing.
- **Insurance:** With a new baby on the way, it is important to consider purchasing life insurance on you and your wife. We recommend term insurance because it isn't excessive and it is relatively affordable. I have provided information on two insurance brokers that we use below. We do not receive any type of commission from any insurance broker though, to be clear. Feel free to contact both to compare.

Best of luck!