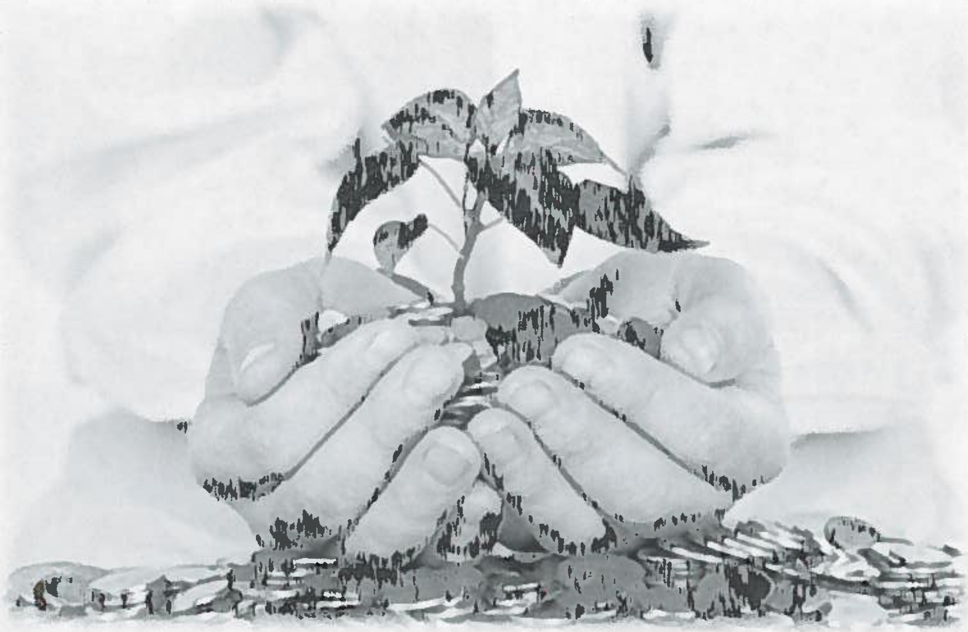
Fall | 2013



Personal Financial Plan

University Of Pittsburgh

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Developing Financial Goals

In order to plan for my financial future, I will begin by developing some financial goals, including short-term, intermediate, and long-term goals.

Short-Term Goals (Less than 1 Year)			
Goal	**Total Cost**	**Duration**	**Target Date**
Begin Building an Emergency Fund	~$500 Monthly (to start off with)	Approx. 20 Months (or $10,000 Cash Balance)	June 2016
Establish Retirement Accounts	~$500 Monthly (or at least the maximum that gains matching funds from my employer)	Length of Employment	June 2016
Continue Building Credit	N/A	Lifetime	N/A

Intermediate Goals (1-10 Years)			
Goal	**Total Cost**	**Duration**	**Target Date**
Purchase First Car	~ $10,000-$19,000	5 years (at least)	June/ July 2014
Begin Investing Outside of Retirement Accounts	At least $1,200 a year	Lifetime	June 2016
Purchase First Home	~ $170,000 (down payment of at least 20%)	2-5 years	January 2018/2019

Long-Term Goals (Over 10 Years)			
Goal	**Total Cost**	**Duration**	**Target Date**
Be able to retire by 65 and have an annual income of at least $100,000	$1,431,440	25 years	June 2057

The next section will show a monthly break down of first year's expenses along with projected growth and discuss how I will begin to save to accomplish my goals.

Evaluating Monthly Expenses

Below is a table depicting a break down of expected first year monthly expenses based on information from "The Missing Semester."

First Year Average Expected Expenses		**Monthly**
Salary		$4,750.00
Housing	30%	$1,425.00
Transportation	16%	$760.00
Food	13%	$617.50
Insurance/ Pension	11%	$522.50
Healthcare	5%	$237.50
Entertainment	5%	$237.50
Clothing and Services	4%	$190.00
Everything Else	16%	$760.00

During my first few months of employment I plan to evaluate my habits and be prepared to reallocate funds if need be. I estimate that housing, and healthcare's percentages could be lower than the percentages found in "The Missing Semester". The company I am going to work for is usually located in areas where the cost of living is lower than the nation's average and I also plan on renting for at least the next three years, due to my job requiring me to move every year for the following three years. As for healthcare, my average monthly costs so far has been significantly less than $285 and with the company health insurance program my maximum contribution would range between $17-$58 a month, however for the purpose of this financial plan, a buffer was maintained. I will be graduating with no student loans, so the "Everything Else" category consist of tax allocation and money which will be used to begin establishing different funds.

The next section focuses on establishing plans to help achieve my financial goals.

Financial Blueprints

Plan for Short Term Goals

Short term goals will focus on establishing liquidity as well as beginning to invest in a company sponsored 401K plans.

- **Begin Building an Emergency Fund**
  - This will be accomplished by setting aside approx. $500 a month, every month until the balance reaches around $10,000 (3 months of expenses). The savings account will be set up in a bank or credit union that is different than my usual bank.
  - Once I reach $10,000 I will invest in short term CDs, or money market securities (that allow withdraws at certain levels) to begin earning a higher return than a standard savings account, while maintaining liquidity[i].
    - Through out my employment I will continue to monitor the levels of the account and adjust accordingly as my expenses increase
- **Establish Retirement Accounts**
  - Once eligible I will open up and begin contributing to my company's pension plan up to the maximum amount in which my employer will also contribute funds. I have budgeted $522 a month or 11% of my first years salary, this will increase as my increase in salary allows.
  - Set up a Traditional IRA
    - Exhibit 1 depicts the difference of a Roth IRA and a Traditional IRA. Since I plan on investing outside of my retirement fund, I will be able to invest the tax savings, and therefore this puts a traditional IRA at a slight advantage over a Roth IRA.
    - Starting off I will choose a more aggressive, high growth IRA consisting of mainly equities and look into an ESOP.
- **Continue Building Strong Credit**
  - I have already begun establishing some credit, but I will continue to build my credit score by:
    - Paying off all credit card bills in full, each month
    - Paying all utility bills, even if living with roommates
    - Acquiring a car loan to purchase my first car (discussed next session)

Plan for Intermediate Goals

My intermediate goals are aimed at providing more financial security and seeking higher growth potential for my investments.

- **Purchasing my First Car**
  - My first car will be a highly used, affordable vehicle. If I am able to purchase the car outright, without financing, then I will. Otherwise, my current budget has $760 blocked out for transportation. Which I can use to finance my first car purchase, pay for insurance, gas, and other miscellaneous expenses.
    - If a 0% financing option is available then I would take it
    - $300 car payment, $200 for gas, $120 for insurance, $140 for miscellaneous
- **Investing Outside of Retirement Accounts**
  - Investing outside of my 401K will consist of focusing on higher growth securities, such as a diversified portfolio of equities, ETFs, or industry specific mutual funds.
  - This would be in a portfolio other than my 401K or IRA. Essential money that I am able to invest in more risky assets that would not impact my overall retirement savings if an economic down turn occurred.
    - Achieve annual growth of ~12%
    - Example: T. Rowe Price Blue Chip Growth Fund (TRBCX)
- **Purchase First Home**
  - Purchase a home using a minimum of a 20% down payment.
    - Approx. $34,000
      - Based on a home value of $170,000
  - A strong credit score and high down payment should allow for a great first rate.
      - I would prefer to lock in a rate, and refinance at a later date if rates to drop.

Plan for Long Term Goals

Long-term goals focus on providing me with a comfortable retirement

- **Be able to retire by 65 with an annual retirement income of $100,000**
  - In order to retire at 65 with and maintain an income level of $100,000 I will need to have savings of at least $1,431,440[ii]
    - Exhibit 1 shows how my IRA alone would be able to finance my retirement
    - My other investments would also be forms of income after retirement such as my individual investments (mutual funds, real estate, etc.), and my 401K

Conclusion

By focusing on the following key items through out the rest of my career and into retirement I will be able to become financially stable, enjoy a more secure life style, and retire with little worry and a lot of flexibility:

- Start saving early and often, treat it as a monthly expense
- Maintain an excellent credit score
- Contribute to my companies 401K plan and establish my own IRA account
- Invest in securities or assets outside of my retirement fund

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Sources

i. http://www.bankrate.com/finance/savings/5-ways-to-grow-an-emergency-fund-3.aspx
ii. The Missing Semester. Pg 61

Exhibits

Exhibit 1

How was this calculated?

Step 1: First we found the value of a Roth 401(k) if you contributed $6,250 per year for 43 years earning an assumed 7% per year. This equaled $1,606,714. Since qualified withdrawals from a Roth 401(k) are not taxed, the total value remains $1,606,714.

Step 2: We then computed the totals for a traditional 401(k). Again we determined the value of $6,250 per year for 43 years earning an assumed 7% per year. This is the same amount as the Roth 401(k) total, $1,606,714. However, contributions and all earnings in a traditional 401(k) are taxable when they are withdrawn. After taxes, the value of your traditional 401(k) account would be $1,365,707.

Step 3: Since you receive a current year tax deduction for any traditional 401(k) contributions, we need to determine the value of investing this tax savings and add this amount to the traditional 401(k) total. If we forget this step, our comparison will not be equal. We would, in effect, be contributing more to our Roth 401(k) than the traditional 401(k). If your tax savings were invested for 43 years at an assumed rate of 7%, this returns a total of $245,723 after taxes.

Results Summary

	Traditional 401(k)	Roth 401(k)
Total contributions	$268,750	$268,750
Total before taxes	$1,606,714	$1,606,714
Value of investing tax savings	+ $245,723	+ 0
Taxes for 401(k) at retirement	- $241,007	- 0
Value at retirement (age 65)	$1,611,430	$1,606,714

A traditional 401(k) may be worth $4,716 more than a Roth 401(k).

Input Summary

Annual contribution*	$6,250	Current age	22
Years until retirement	43	Age of retirement	65
Expected rate of return	7%		
Current tax rate	25%	Retirement tax rate	15%

Source: http://www.bankrate.com/calculators/retirement/401-k-or-roth-ira-