



## **CASE STUDY\***

### **Service Provided: Foundation Building & Hourly Consulting**

#### **What Brought Client In**

Harold and Irma came to Sterling Futures with many questions about their financial situation. Harold, age 43, worked as a technician specialist for a computer company and Irma, age 37, worked part time as a social worker. They had twin daughters that were two years old and wanted to be able to fund their children's college education. In addition to their earned income, they had income from rental property and two notes that were inherited from Harold's parents. Harold and Irma wanted to know if they should continue to rent the property or sell it and invest the proceeds. They had questions about their life insurance coverage, Harold's employer's cafeteria-style benefits package, cash flow, savings, and if they could retire comfortably at age 65.

Although Harold and Irma had a net worth of approximately \$2,000,000 with about \$400,000 in investment assets, we found that their cash emergency fund was very small. And even with a total gross annual income of over \$180,000, we found that they had a negative cash flow. The result was that they tended to sell off assets or exercise and sell stock options to subsidize their cash flow, often liquidating these assets at inopportune times. A "Rental Property Keep/Sell Analysis" revealed that the annual after-tax income from rents was approximately one third of the income that could be derived if the after-tax sale from the proceeds were invested with a 7% return. A college fund analysis revealed that additional savings of \$119 per month over their current savings level would be needed. Also, their retirement fund would be fully funded if contributions remained at current levels and increased at 3% annually

#### **Where Client Is Today**

- ✓ Having developed a spending plan and identified areas where expenditures could be reduced and savings increased, Harold and Irma now have a positive cash flow and are saving to build their emergency fund and the increased amount needed for their children's college education.
- ✓ Have a plan to account for changes in cash flow when the income from the inherited notes stops in 5 and 7 years.
- ✓ The rental property is on the market and expected to sell quickly. A portion of the income from the invested proceeds will be used to subsidize living expenses and the balance reinvested to meet long-term goals.
- ✓ Purchased term life insurance to supplement other sources to provide for surviving children through college and a surviving spouse through retirement.
- ✓ Have updated will, living will, and powers of attorney for health care and financial matters.
  
- ✓ Have knowledgeably completed selection of their cafeteria-style benefit choices, particularly amounts for life insurance, long-term disability, and flexible spending health care account.

\* All case descriptions have been generically compiled to protect client confidentiality.



## **CASE STUDY\***

### **Service Provided: Financial Counseling**

#### **What Brought Client In**

Deborah was 38 years old when she first saw our financial counselor. Single, she was unemployed, though she worked occasionally at a beauty salon for \$10/hour "under the table." (She usually spent all the money she earned buying salon products). As an only child Deborah had moved home after college. She worked for thirteen years in a department store, but her parents had always supported her and continued to do so. Deborah said that she had loved living at home.

A few years ago, both her parents died — her mother of cancer and her father, five months later, of a heart attack. Along with feelings of grief and loss, Deborah was terrified of living alone and taking care of herself. Her mother's dying words were, "If I die tomorrow, you'll spend all the money."

When Deborah first came to see us she had assets of \$1,782,000 and \$32,598 in debt on a line of equity (she was not sure what the debt was for). She had income from property (both the home she was living in and a rental home were paid for) and a trust — a combined total of \$3,100 a month.

While she was not clear about where her money went, she was not able to live on this income. She said that she could not imagine living on \$3,000 a month but did not want to work. Deborah was seeing a therapist once or twice a month. She could not get medical insurance due to her obesity (she weighed 240 pounds). At her rate of spending we calculated that she would be broke in less than seven years.

#### **Where Client Is Today**

- ✓ Has stopped using credit (cards and equity line).
- ✓ Is out of debt.
- ✓ Has reduced her living expenses from \$8-\$12,000/month to \$5,500.
- ✓ Is taking a college career exploration class.
- ✓ Is using the system of the Spending Plan, along with the Periodic Expenses and Periodic Savings worksheets, to stay clear about her spending.
- ✓ Hired a professional organizer to go through her parents' papers.
- ✓ Is considering going for help with her eating disorder.

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## **CASE STUDY\***

### **Service Provided: Portfolio Supervision**

#### **What Brought Client In**

Peter worked for a large technology company and amassed over \$3,000,000 in company stock as a result of exercising employee stock options. Every quarter he became vested in additional options both qualified and non-qualified. In order to obtain capital gains treatment on the sale of the stock most of the shares had to be held at least 12 months from the date of exercise. Other investment assets included three small IRAs and a sizable taxable account with a large brokerage house. Peter thought that his accounts had done okay, but was not sure since he received plenty of statements but had never received a performance report.

Peter thought he understood the tax implications of his options, but had been recently surprised by a very large Alternative Minimum Tax bill. Peter felt that his accountant ought to have warned him about this.

Peter also wanted to reduce the risk of his portfolio but was reluctant to do so because he thought that the prospects for the stock were still very good. However, he was also the first to admit that his track record in predicting stock prices was abysmal. Peter spent much of his time worrying about his portfolio and would check his company's stock price obsessively throughout the day.

Peter kept repeating that he wanted us to simplify his life.

#### **Where Client Is Today**

- ✓ Has a tax plan and receives regular projections of taxes to be paid.
- ✓ Has a diversified tax-managed portfolio of individual stocks.
- ✓ Has a transition strategy for the rest of his company stock.
- ✓ Receives a consolidated quarterly performance report for all accounts.
- ✓ Has regular review meetings which track his portfolio's performance against both standard benchmarks and his own goals.

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## **CASE STUDY\***

### **Service Provided: Retirement Planning**

#### **What Brought Client In**

Susan was 62 and worked as a sales executive in a large computer manufacturing company. The company offered her an early retirement package with a retirement bonus incentive, but Susan was not sure she had accumulated sufficient assets to accept the offer. Susan had \$673,000 invested in taxable accounts, \$606,000 in tax-deferred accounts and two rental properties bringing in \$32,000/year before tax. During retirement Susan calculated that she would have annual expenses of \$50,000 in today's dollars plus mortgage payments of \$19,700 for 15 years and \$7,400 for 7 years. Susan did not want to retire and be continually worrying about money. She wanted to see a range of possible outcomes depending on the different assumptions made about inflation, investment returns, taxes, and social security. If she did not accept the offer she could continue to work for several more years.

#### **Where Client Is Today**

- ✓ She accepted the early retirement package.
- ✓ She is living comfortably on her rental, early social security, and investment income.
- ✓ Her plan is comfortably over-funded and her assets will continue to grow through her retirement years.
- ✓ Susan now has confidence that even with conservative investing she will not have to worry about having enough money during her retirement.

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