

Envision[®] case study #5

Aubrey Pinkerton

Aubrey Pinkerton (from Florida) has been a hypothetical client for four years and you have helped her develop a portfolio that she can build on in the years to come. As Aubrey begins to make decisions for her financial future, you're excited to introduce her to the *Envision* process to help further build this client relationship.

Personal information

Aubrey Pinkerton

Age: 38

Income: \$95,500

Accountant

Life goals

Retirement Acceptable – retire at age 68
Ideal - retire at age 62

Aubrey has recently become comfortable in a new position with a Fortune 500 company. She has always believed 62 was a good age to retire, and she's hoping that the *Envision* process will give her the direction she needs to make that happen. However, she's willing to work until 68 if her retirement spending goals are not attainable earlier.

Spending Acceptable – use estimation
Ideal – use estimation

Aubrey currently makes about \$95,500 a year. She'd like to maintain that spending pattern during retirement, so you chose to estimate her retirement spending using her current annual gross salary.

NOTE: *The Envision application uses her current annual gross salary to calculate the Ideal and Acceptable retirement spending amounts. Ideal is 80% of her current annual net salary and acceptable is 65% of her current annual net salary.*

Social Security

She does not want to rely on Social Security.

Estate

Acceptable - \$0

Ideal - \$0

Aubrey is not concerned with leaving an estate. She does not want to sacrifice her current or retirement lifestyle. She would be satisfied leaving her personal property to her heirs and would add additional assets if they were available.

Other goals

Aubrey would also like to set up a separate budget for travel during retirement. She is an avid skier and has made it a goal during retirement to visit a new location each time. She's hoping to be able to allot \$20,000 a year for her travel, but would be satisfied with \$10,000 and possibly choose more moderate accommodations. She would also like to throw a huge 40th birthday party for her and a few of her closest friends on the slopes in the Swiss Alps. After pricing the trip, she'd like to make sure she sets aside at least \$30,000, up to \$40,000, for this adventure.

Savings / Annual Contributions

Aubrey is a smart retirement saver. She has accumulated \$285,000 in her 401(k) and another \$35,000 in a Roth IRA. Aubrey is currently saving an additional \$10,000 per year into her 401(k), but she would consider saving an additional \$2,000 to \$6,500 per year if it meant she could achieve some of her more important goals. Her employee 401K match is 5%. She also wanted to structure her plan in preparation for the catch-up contribution to her 401K, maximizing that effort from 50 until retirement. She is currently contributing \$200 per month into a Roth IRA and would consider increasing that amount if it were important to meeting her higher priority goals. Aubrey is currently saving \$2,500 per year toward her birthday party. She would consider saving an additional \$2500 if it would help her reach her goal.

Assets and Liabilities

Aubrey recently purchased a condo with a market value of \$110,000 and has a mortgage of \$87,000 on the property.

Risk tolerance and avoidance

Aubrey realizes her time horizon is long and is willing to tolerate fluctuations in the value of her portfolio with a primary investment goal of capital appreciation. As she nears retirement, she'd like to consider a portfolio that offers a good balance between risk and return. And once she's finished hitting the slopes, Aubrey would like to reduce her risk to protect her capital and focus on maintaining her income.

Account summary

Aubrey's 401(k)	\$285,000
Aubrey's Roth IRA	\$ 35,000
Aubrey's Checking	\$ 2,500

Priorities

Aubrey is focused on being able to retire in her early sixties and maintain her current lifestyle when she gets into retirement. She realizes risk tolerance is an important aspect to her financial future. Travel during retirement is something she would not be willing to sacrifice but would be willing to reduce the budget if it meant she could meet some of her higher priority goals. Near-term goals include being able to fund her birthday party. She'd be willing to save more to assure that this goal is reached.

In order to ...

- Maximize retirement income – Aubrey would be willing to take more risk, save more, reduce her travel budget, or even retire a year or two later.

- Achieve her ideal retirement age – Aubrey is willing to take more risk or save a little more than she currently is.
- To meet her travel and 40th birthday party goals – Aubrey would take on more risk or set aside just a little more each month.

Recommendations and results

Recommended Plan Result: 87

Based on the information, the FA recommends the following plan:

Retirement Age

Since this is one of Aubrey's main goals for retirement, we show her retiring at 63 – five years prior to her acceptable retirement age.

Retirement Spending

Spending during retirement was also one of Aubrey's top priorities. We came in at about \$59,000, just at her ideal spending value.

Other Goals

Aubrey is really hoping to plan her birthday party adventure. We suggested she keep that goal at her ideal amount and keep an eye on her annual retirement travel budget to help her get there.

Savings

In order to help Aubrey meet some of her higher priority goals, we suggest she keep all of her current savings the same and review these amounts along the way. We recommend she plan for the 50+ step up and continue saving into her Roth IRA.

Risk

The plan aims to structure risk based on Aubrey's time horizon and risk tolerance. Until she nears retirement, Aggressive Growth and Income can provide her with the capital appreciation she needs to meet her goals in retirement. Once she retires, Moderate Growth and Income provides her with the necessary balance between risk and return. And after she's finished seeing the world's ski slopes, Moderate Income gives her the capital preservation she needs to maintain her income.

Scenarios

Aubrey asked if you could illustrate what her plan would look like if she were to budget an additional \$10,000 every five years until she turned 80 so she can travel abroad.

Once you added the additional goal, her plan result dropped minimally, making it acceptable for her to add the additional travel if she would like.

This case study is provided for informational purposes only. The solutions discussed may not be appropriate for a client's specific situation, even if it is similar to the example presented. Investors should make their own decisions based on their specific investment objectives and financial circumstances. It should not be assumed that the recommendations made in this situation achieved any of the goals mentioned. This example is hypothetical and does not represent any specific investments or strategies.

IMPORTANT:

Broker-dealer use only

The projections or other information generated by *Envision* regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results may vary with each use and over time.

Envision methodology:

Based on accepted statistical methods, the *Envision* tool uses a simulation model to test your Ideal, Acceptable and Recommended Investment Plans. The simulation model uses assumptions about inflation, financial market returns and the relationships among these variables. These assumptions were derived from analysis of historical data. Using Monte Carlo simulation the *Envision* tool simulates 1,000 different potential outcomes over a lifetime of investing varying historical risk, return, and correlation amongst the assets. Some of these scenarios will assume strong financial market returns, similar to the best periods of history for investors. Other will be similar to the worst periods in investing history. Most scenarios will fall somewhere in between. Elements of the *Envision* presentations and simulation results are under license from Wealthcare Capital Management LLC © 2003-2020 Wealthcare Capital Management LLC. All rights reserved. Wealthcare Capital Management LLC is a separate entity and not directly affiliated with Wells Fargo Clearing Services, LLC.

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