BERNO FINANCIAL MANAGEMENT

For Financial Peace of Mind

Procter & Gamble Case Study

Case Study: The Johnson Family & Berno Financial Management

At age 58, Bob Johnson accepted an early retirement package after 35 years at P&G. He and his wife Sally will soon celebrate their 30th anniversary. They have 3 children. Their oldest child is a physician and has two children of his own. Their second child, Beth, recently became engaged. Their third child, Katie, is a junior in college.

Bob held a variety of management positions during his time at P&G. He has relied on Procter's employee benefit plans for his financial security and has never seen the need to work with any type of financial advisor. He used an attorney several years ago to draft simple Last Will and Testament documents for himself and his wife, but he has not consulted the attorney for many years.

Bob has always had an interest in investing and enjoyed managing his family's investments within the P&G Profit Sharing Trust Plan (PST). He chose to use Retirement Plus options for the 401(k) Savings Plan portion of the P&G PST. But now he realizes there is a large dollar amount at stake and he feels less confident in his ability to continue managing his finances on his own. He wants to hire a professional financial advisor to serve him and his wife during retirement.

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Before Bob retired, he attended several retirement seminars sponsored by brokerage firms and banks. Having never worked with any type of financial professional, he was unsure of the best way to evaluate them. While he was impressed with their knowledge and strategies, he could sense that they were mass-producing financial plans for P&G employees in high volume.

Bob was also concerned with both the integrity and the financial stability of the brokerage firms and banks. Additionally, he saw a conflict of interest in the way they created financial products and earned their fees and compensation to sell those products. He was concerned about what kind of attention or service he would get in the years ahead.

Bob thought that these large banks and brokerage firms put too much emphasis on strategies to minimize income tax in the initial transition to retirement and not enough emphasis on how to manage the annual cash flow needs in retirement on a regular basis.

Working with Berno Financial Management

Bob and Sally met with the experts at Berno Financial Management and received a detailed, written Personal Financial Assessment. This helped them clarify their financial situation and goals:

- They need $7,500 a month after taxes for their base personal living expenses.
- They have 10 years remaining on their mortgage, with a monthly payment of $1,500.
- They want to spend $25,000 this year on a special 30-year wedding anniversary trip.
- They expect to spend $30,000 on their daughter Beth's wedding.
- They both have relatively new cars, but project replacing Bob's in 2012 for $35,000 and Sally's in 2014 for $35,000.
- Their home is 25 years old and they anticipate spending $10,000 for some home maintenance projects in 2011 and about the same every five years thereafter.
- They plan on living in their current home as long as they can.
- They want to allocate $12,000 a year for travel above and beyond their normal monthly expenses.
- Sally is active in her college alumni association and wants to pledge $5,000 a year for five years to her alma mater's capital campaign.
- They want to plan a wedding for their youngest daughter, Katie, about five years from now.
- They do not plan to contribute to their grandchildren's education expenses but do hope to leave a nice inheritance for their children to use as they see fit.

During their consultation with BFMI, Bob and Sally also identified some personal financial planning concerns:

- Bob had a heart attack five years ago and none of the men in his family have lived past age 75. Sally, on the other hand, is in good health and has longevity in her family. Her mother is in good health at 88 and her grandmother and aunts all lived into their 90s. Sally is concerned about long-term care costs if Bob pre-deceases her and she lives to age 95 or 100.
- They are concerned about protecting any inheritance that their son, Tom, would receive if he is sued for medical malpractice.
- They are concerned about their future son-in-law's financial responsibility and want to protect Beth's inheritance from any creditors or a divorce.
- They both want to leave a charitable bequest to their church in their estate plan.

Current Financial Situation

Bob has $4,000,000 in his P&G PST. He used Retirement Plus choices for his Savings Plan balance of $75,000. He shifted $300,000 of the plan balance to the Stable Value Fund in 2007 in anticipation of his retirement. The balance of the plan remains in P&G stock. He has $500,000 of stock options remaining that expire in years ranging from 2012 to 2018 or up to age 67. He has 100,000 of P&G stock in his SIP account. He used his STAR Awards for the past several years to pay college expenses for his children and he used an inheritance that he received to pay for a major home remodeling project. He does not have any taxable accounts or non-IRA investments. Sally has not worked outside of the home during the marriage and does not have any retirement or pension benefits. She may receive an inheritance of about $250,000.

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Developing a Financial Profile

BFMI used a written personal financial profile based on academic, psychographic principles to determine investor return expectations, behavior and risk tolerance. This process resulted in a recommended asset allocation of 60% stocks, 30% bonds and 10% cash. Based on further discussions with their advisor and consideration of the P&G stock options, Bob and Sally decided to set the initial stock, bond and cash allocation for the retirement plan at 50% stocks, 45% bonds and 5% cash. Bob did not want to keep 40% of his PST balance in P&G stock, so they will open an IRA roll-over account.

Bob and Sally's advisor also prepared a detailed written comprehensive retirement projection with a year-by-year strategy to generate the cash necessary from Bob's SIP plan, stock options and new IRA roll-over account to meet their financial planning goals. This plan will be monitored and tracked annually. Updates will be made every three to five years to adjust for any changes, current market conditions and investment returns.

To minimize income taxes, some of the P&G stock from the PST will be transferred in shares to Bob's SIP. This gives Bob a lot of flexibility to meet the one-time expenses they will incur over the next few years. This concept, referred to as Net Unrealized Appreciation stock, or NUA, is particularly attractive for funding Sally's charitable gift to her college.

"Bob and Sally's advisor prepared a detailed written comprehensive retirement projection"

Sally wants to feel comfortable that the investment portfolio has a high probability of lasting until she is 100 years old, so the initial withdrawal rate in the early years will be limited to 3% to 5% of the portfolio. Bob also decided to start his Social Security benefits at age 66 since the exercise of stock options will keep him in a high tax bracket for several years. This also means that his initial Social Security benefits will be higher than if he started at age 62, which will allow for higher annual dollar amounts of inflation adjustments and a higher survivor benefit for Sally if Bob pre-deceases her.

Doing this year-by-year planning showed that their mortgage will be paid off in the same year that their last P&G stock option expires and Social Security starts, so their monthly living expenses will actually go down. IRA rollover withdrawals will be kept within a reasonable range so that the portfolio remains intact until Sally reaches age 100. This strategy will also hopefully provide for some inheritance balance.

To further reduce the risk of outliving their money, they purchased long-term care insurance for Sally. They felt comfortable not buying any for Bob due to his health and family history. To keep the premiums affordable, they purchased coverage for about three-fourths of the actual projected cost of long-term care on the premise that long-term care insurance would supplement the investment portfolio.

To learn more about how Berno Financial Management can help you achieve financial peace of mind, contact us for a free, no-obligation copy of our Personal Financial Assessment for Procter & Gamble Employees and Retirees.

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