



# Financial Plan

For James and Stephanie Yost

April 21, 2023

Information provided in this business plan is unique to this business and confidential; therefore, anyone reading this plan agrees not to disclose any of the information in this business plan without prior written permission of the company.



Dear James and Stephanie Yost,

Thank you for choosing Mountain Sunset Financial for your financial planning needs. We appreciate the trust and confidence you have placed in our firm and look forward to assisting you in the pursuit of your long-term goals. Financial planning is about planning for the certainty of uncertainty.

Our priority is helping you take care of yourself and your family. We want to learn more about your personal situation, identify your goals, and assist you in making those goals a reality. Long-term relationships that encourage open and honest communication have been the cornerstone of our foundation of success. We are committed to being there for you every step of the way.

Please do not hesitate to reach out to us if you have any questions or concerns. We work five days a week in the office. We can be reached between the hours of 8:00am and 5:00pm. If you need to reach us after hours, please send an email to [info@mountainsunsetfinancial.com](mailto:info@mountainsunsetfinancial.com). She will get back to you as quickly as possible.

Once again, we appreciate the opportunity to serve you. We look forward to providing you with the high-quality financial services and personal attention that have made us one of the nation's leading financial planning firms.

With regards,

Mountain Sunset Financial

April 21, 2023

James and Stephanie Yost  
123 Any Street  
Radford, VA 24141

Dear James and Stephanie:

I enjoyed our conversations, and I am pleased to be working with you. As we discussed in our multiple meetings, we need to formalize the relationship between us. This letter gives you important information about the work that we (my firm and I) will do for you, how you will pay for services and products, and how we will be paid for the work that we will do for you.

You will find other important information and a description of my obligation to act in your best interests in my firm's Client Relationship Summary (Form CRS), Form ADV, and Investment Advisory Agreement. These documents provide additional information not in this letter, including about how you will pay and how we are paid. We gave you these documents. You should review them carefully and let us know if you have any questions.

#### **WE WILL PROVIDE THE FOLLOWING SERVICES AND PRODUCTS**

You have engaged us to provide financial planning, including investment advisory services. Based on our recent conversation, we understand that you would like to focus on the following:

1. Cash flow planning, including preparing a cash flow summary and planning for an emergency fund;
2. Investment planning, including reviewing your current investment portfolio and developing and implementing an asset management strategy;
3. Retirement planning, including analyzing how likely you are to meet your target goals by your retirement date; and
4. Estate, gift, and wealth transfer planning, including assessing your estate net worth and liquidity, and whether you should create a trust for the benefit of your grandchildren.
5. Tax planning, including minimizing tax liability that arises from all of our other planning steps.

Please be aware we are not attorneys. We are not certified tax preparers, CPAs nor enrolled agents of the IRS. We are not licensed insurance professionals. We will need to engage these professionals to implement some of the recommendations we make.

Here is our approach to **financial planning**:

1. First, we will ask you for information, so we can understand your personal and financial circumstances.
2. Then we will work with you to identify and select goals.
3. After you have chosen your goals, we will analyze your current course of action and other approaches you might take.
4. Next, we will develop the financial planning recommendations.
5. Then we will present the financial planning recommendations to you, along with the information we considered to develop them.
6. After that, we will analyze and recommend actions, products, and services to implement the financial planning recommendations. We will work with you to decide which of my recommendations you would like to implement.
7. At least annually, we will monitor your financial plan. This will include:
  - a. Analyzing the progress you have made toward achieving your goals. We will remind you to tell us about changes in your personal and financial circumstances. When needed, we will update your goals, our recommendations, and the selection of the actions, products, and services we have recommended.
  - b. Monitoring the investments in your Investment Advisory Account and any actions we have taken.

Here is our approach to providing you with **investment advisory** services:

1. At the beginning, we will meet with you to develop investment goals and strategies that are consistent with your financial planning goals.
2. We gave you our Investment Advisory Agreement. It describes our advisory relationship and my firm's investment practices that apply to you. We will manage the Investment Advisory Account on a *discretionary* basis. That means we will buy and sell investments for the accounts without first getting your specific authorization for each transaction. We will base these decisions solely on our best judgment about what is in your best interests at that time.
3. We will custody the assets that we will manage for you. A separate custodial agreement will outline how your assets will be held and how you may access your assets. We use Charles Schwab as the custodian.

4. My firm will send you a report each calendar quarter that will show the value of your accounts, your accounts' performance, and other account-related information. The report will show all transactions made in the accounts during the quarter, and any costs or fees deducted from your accounts. In the meantime, you can access your monthly statement online.
5. We will monitor these accounts and when appropriate, update your goals, our recommendations, and the selection of the actions, products, and services we have recommended.

As we learn more about your needs, we may discover other services you may need. If you need services that we do not provide, such as accounting and legal services, then we also may be able to recommend professionals to provide those services.

#### HOW YOU WILL PAY FOR SERVICES AND PRODUCTS

My firm's Form CRS, Form ADV, and Investment Advisory Agreement include more information about how you will pay for products and services. We gave you these documents during your prospective client meetings. You also can access them online. We will help you understand the fees you will pay and the cost of any services and products we recommend. Let us know if you have any questions. There are two different services we are providing and a fee for each.

**You will pay an advisory fee each quarter.** We are providing comprehensive financial planning services initially. We will render you a comprehensive financial plan. The fee for this service is a flat \$5,000.

**You will pay an advisory fee each quarter.** The advisory fee covers our costs to manage your assets and provide other financial planning services. My firm will deduct the fee from Stephanie's IRA based on the average of the values of the Investment Advisory Account on the last business day of each of the last three months. The reason why we are deducting it from Stephanie's IRA is because that is the most tax advantaged way to do it.

We have tiered fees based upon the amount of assets you have us manage. The Tiers are as follows:

Tier	Amount Under Management	Advisory Fee
Tier 1	\$250,000-\$500,000	1% AUM

<b>Tier 2</b>	\$500,001-\$1 million	0.75% AUM
<b>Tier 3</b>	\$1 million+	0.50% AUM

You are currently in Tier 1. This means the amount of the fee is 1% of the average Investment Advisory Account value. If your account value increases to more than \$500,000, then the fee on the amount above \$500,000 would be 0.75% AUM. If your account value increases to more than \$1 million, then the fee on the amount above \$1 million will be 0.50%. There are additional details in the Investment Advisory Agreement. You should review that agreement carefully and let us know if you have any questions.

- **If you invest in mutual funds and exchange-traded funds (ETFs), then you will pay fees and expenses to third parties.** In addition to the advisory fee you pay us, these products have operating expenses and ongoing fees. Mutual fund and ETF fees and expenses can include investment management fees and shareholder service fees.
- **You will pay fees and expenses to the firm that holds (maintains custody of) your assets.**

#### HOW WE (THE FIRM AND I) WILL BE PAID

We are a fee only firm. This means we are independent advisors and we do not receive sales-related commissions on any product we recommend. You pay my firm an advisory fee. I am paid a salary plus a part of the advisory fees that clients pay my firm. You will find more information about payments to me and my firm in my firm's Form CRS, Form ADV, and Investment Advisory Agreement.

#### MY MATERIAL CONFLICTS OF INTEREST

We have a conflict of interest whenever we have interests that are different from yours. Conflicts can affect the recommendations we give you. When we have a conflict, we will tell you. You can find more information about our conflicts of interest in my firm's Form CRS, Form ADV, and Investment Advisory Agreement. We have policies and procedures designed to help manage conflicts. We will always work in your best interests.

- **The ways you pay us create conflicts of interest.** The amount we earn from working with you depends, in part, on the amount of assets we manage for you. We have a financial incentive to recommend that you make financial decisions that would result in more assets under our management.

- **If we provide other services to you in the future, there may be different conflicts.** When we have a conflict of interest, we will tell you about it.

If you are concerned about a conflict of interest and how it might affect your accounts, please talk to me about it.

**Please also be aware that we are not attorneys, CPAs, nor IRS licensed tax preparers. We cannot and have not provided legal advice, legal tax advice, or prepared your returns. We will help you engage those professionals to render professional advice.**

## **YOUR RESPONSIBILITIES**

It is **your** responsibility to update the information you have given me about your personal and financial circumstances. We will have periodic meetings and conferences wherein you can provide these updates.

You will be sent account reports at least quarterly. You also can access the reports online. You should review these documents carefully. Let me know if you want to talk about the information in these documents.

## **TIMING OF THE ENGAGEMENT**

Our engagement will continue until one of us decides to change or end it. If you decide to change or end the engagement, you just need to tell us. We can do the same, but we will tell you in writing.

## **YOUR PERSONAL INFORMATION**

My firm has adopted and implemented policies about protecting and sharing your nonpublic personal information. We have given you our Privacy Policy.

## **PUBLIC DISCIPLINARY AND BANKRUPTCY HISTORY**

We do not have any public disciplinary or bankruptcy history.

## **THANK YOU FOR WORKING WITH US**

Thank you for choosing us to work with you. We look forward to getting to know you better. You may reach us at (540) 998-9465.

Sincerely,

Elaine O. Borgee

Laura R. DeSantis

Senior Financial Advisors



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## **Our Mission and Vision Statement**

Our mission is to provide our clients with the highest level of financial planning and investment management services available and to regularly communicate with those we serve the information and advice required to reach their financial destinations.

Our vision is to create unmatched value for our clients and colleagues as we contribute to the growth of sustainable, prosperous communities.

## **Statement of Principles**

### **Respect**

At Mountain Sunset Financial, we value respect among coworkers and clients. We believe that every individual is worthy and valuable.

### **Honesty**

Honesty is an important characteristic of a trusted relationship. We work to be transparent in all aspects of our business. We want our clients to feel worthy and confident in us.

### **Accountability**

We accept responsibility for our actions. We will hold ourselves accountable to put in complete effort with every client and we embrace our role as trusted advisors.

### **Collaboration**

Teams that share information, ideas, and opinions are valuable. We believe that new ideas foster growth and the acceptance of all ideas creates a safe space for all.

### **Trust**

We believe that client relationships are built on trust. We are committed to being worthy of this trust through our approachability and respect.

## Privacy Statement

Mountain Sunset Financial considers the privacy of its clients to be of fundamental importance and has established a policy to maintain the confidentiality of the information you share with us.

In providing asset management services to you, we collect certain nonpublic information about you. Our policy is to keep this information confidential and strictly safeguarded, and to use or disclose it only as needed to provide services to you, or as permitted or required by law. This policy is applicable to information for current and former clients.

The personal information we collect directly from you includes information required to communicate with you and assist us in effectively addressing your financial needs. This information could include:

- Your name and address
- Investment objectives and experience
- Financial circumstances
- Account balance and account transactions
- Social security number
- Employment information

We collect your personal information, for example, from the following sources:

- Information we receive from you on applications and other forms
- Information about your transactions with us or others

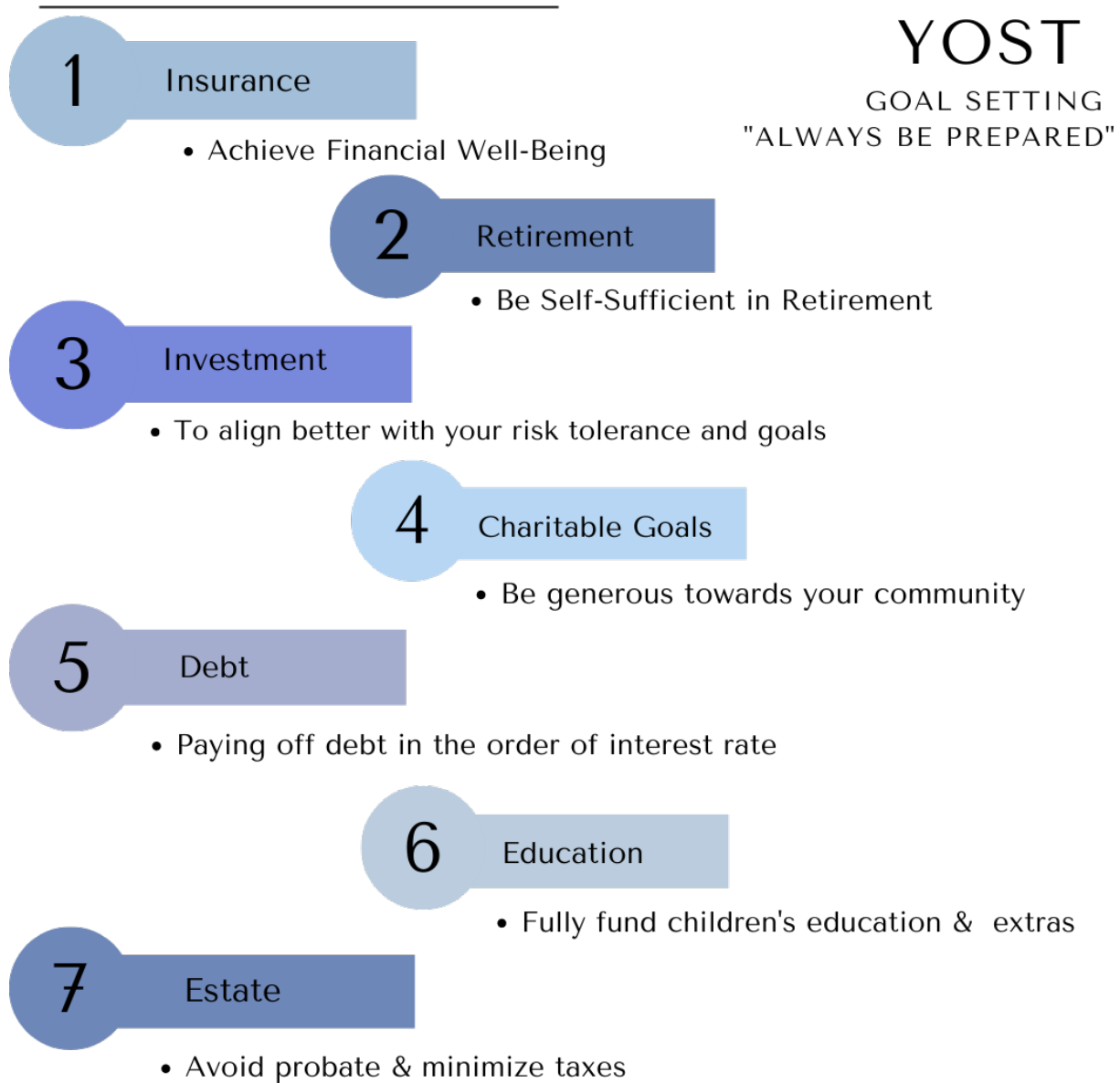
We also collect your personal information from others such as custodians, broker/dealers and other companies.

All financial companies need to share client personal information to run their everyday business. We use information about you to provide our asset management services to you. We may disclose the information to third parties as permitted by law, including the broker/dealers, custodians or other companies used to provide services to you. From time to time, we may be required to give information about our business to regulatory authorities. This may include personal information about you. We do not sell your personal information to anyone.

We have procedures in place that we believe are reasonably designed to protect the security and confidentiality of your information. These include confidentiality agreements with companies we hire to help us provide services to you, password-protected user access to our computer files, training of employees, and strict confidentiality policies that apply to all employees.

If you have any questions, concerns or comments about our privacy policy, you may contact us at (540) 998-9465.

## Summary of Goals



## Executive Summary

The purpose of this comprehensive financial plan is to provide a framework to help you reach your goals and objectives. In this Executive Summary, your plan is broken down into categories where we briefly explain each goal. We want to applaud you for the steps you have taken in your financial endeavor thus far and look forward to helping you achieve all your goals.

We have stated all assumptions in the appropriate chapter.

Following our meeting, we ascertained the following goals. Please feel free to correct us as to the goals or their order or priority. For now, we proceeded with these goals in mind:

### Retirement

You have done a great job saving for retirement thus far. One of your goals is to retire at age 65. We believe this is fully possible. We recommend you reallocate your retirement accounts as mentioned in the Investments Chapter. We also suggest you continue to defer salary into your 401(k) and continue to take matches from your employer. If you continue to save for retirement without taking any premature withdrawal, you will be successful.

### Disability Insurance

During Andersen's new open enrollment period from June 1st until June 15th, 2023, we recommend that you enroll into health insurance, dental insurance, vision insurance, AD&D, short-term disability, long term disability, and ancillary benefits. This will provide safety in your future and let you "always be prepared."

### Education

You have done a wonderful job saving money for college. Amelia and Ben are very lucky! Based on our projections, it is highly likely you will be able to meet the full cost of attendance for a four-year public state university for each child. We recommend that you accept the \$15,000 from Elizabeth for each child's 529 college savings account. We recommend reallocating the 529 accounts to target date funds yielding 7.9%.

### Investments

According to the risk tolerance questionnaire that you both completed, you have a moderate risk tolerance. We recommend reallocating all retirement accounts, the joint taxable accounts, and



both 529 college savings accounts. We will reallocate each portfolio to fit with your moderate risk tolerance. Currently, your investments are more aggressive because they are invested in mostly stocks. We can help diversify your portfolio by incorporating more fixed income and less stocks. Nevertheless, you will still be rewarded for the risk you take!

## **Life Insurance**

We recommend that you buy a twenty-year term policy for each of you with a \$1.5 million in death benefit. We also recommend that you surrender your whole life policies. We also suggest obtaining the group term insurance provided by Anderson for James and Stephanie. These group term policies cover 2X each of your salaries (not including bonuses). This will bring your total life insurance coverage up to 1.7 million plus for each of you (\$1,757,296 for James, \$1,733,664 for Stephanie). James also has his estate as the beneficiary for his group term policy. This needs to be changed. We will discuss this in the Estate Chapter.

## **Charity**

We admire your philanthropic endeavors and look forward to assisting you with your charitable goal. During our last meeting, you expressed your desire to give \$100,000 to a foundation of your choice. We believe this is possible by using money from James's Inherited IRA. You will draw money from this account over a 10-year period, creating a smaller tax liability than if you were to take out all the money at once. After you receive this money and pay tax on this amount, you can donate the remainder to charity with cash contributions. You will also get to deduct this contribution which will help offset your tax liability. Some of the money from the Inherited IRA can also be used to take vacations with your family.

## **Estate**

We recommend that you hire an attorney to update wills and guardians, retitle assets, to set up ILIT, to draft end of life, incapacitation, and side letter documents. We also recommend that you update POD and TOD to the appropriate people. Each insured (person) should remove all indicia of ownership from life insurance policies. We also need to plan for the transfer and access of digital assets. We will accomplish this through lastpass.com.

## **Property and Casualty**

We have made many recommendations within this chapter. First, we recommend that you change your homeowners' policy to a replacement cost of \$390,000. We also recommend you obtain personal property riders/endorsements and insurance for the watercraft. We understand

that you own a special record collection. This needs to be insured as well. Lastly, we believe that you should obtain a personal liability umbrella policy (PLUP). This would require you to max out the liability portions of your homeowners, automobile and boat policies.

## **Tax**

Your tax liability will increase this year, however, we have made many recommendations to lower it as much as possible.

## **Cash Flow/Debt**

We recommend that you take advantage of a credit card transfer. This will decrease the amount of interest accumulating on your current credit card debt. We also recommend increasing your credit card payment by \$25 a month. This will help you get it paid off in ten months.

## Cash Flow and Net Worth Analysis

Cash Flow and Net Worth Analysis
Life Insurance Planning
Property and Casualty Insurance Planning
Retirement Planning
Investment Planning
Debt Planning
Education Planning
Employee Benefits Planning
Charity Planning
Estate Planning
Tax Planning
Implementation and Monitoring

Set forth in this table is your current net worth. Next year, after the recommendations have been implemented, we will recalculate this number for you with a complete analysis.

Summary Net Worth Statement*		
<b>ASSETS</b>		
Monetary / Liquid		\$24,900
Investment		\$81,000
Retirement		\$831,340
Insurance (cash value only)		\$19,600
Education / Special Needs		\$145,900
Real		\$375,000
Personal / Collectible		\$85,250
Use / Lifestyle	+	\$77,600
Total		<u>\$1,640,590</u>
<b>LIABILITIES</b>		
Current		\$6,250
Long-term	+	\$291,156
Total		<u>\$297,406</u>
<b>NET WORTH</b>		<b>\$1,343,184</b>
*Includes 100% of all values listed above, regardless of ownership designation.		

Summary Net Worth Statement*			
<b>ASSETS</b>			
Monetary / Liquid		\$29,572	
Investment		\$119,259	
Retirement		\$860,809	
Insurance (cash value only)		\$0	
Education / Special Needs		\$169,255	
Real		\$375,000	
Personal / Collectible		\$85,250	
Use / Lifestyle	+	\$77,600	
Total		<b>\$1,716,745</b>	
<b>LIABILITIES</b>			
Current		\$0	
Long-term	+	\$261,689	
Total		<b>\$261,689</b>	
<b>NET WORTH</b>		<b>\$1,455,057</b>	
*Includes 100% of all values listed above, regardless of ownership designation.			

Above is a comparison of your current net worth and then your projected net worth with our recommendations in this plan. The top table shows your current net worth and then the bottom table is a projected (pro forma) net worth a year from now. With our recommendations, your net worth is projected to increase within the next year.

## Cash Flow Tracker

This table is a summary of our recommendations made in this plan. You will see that as a result of our recommendations, you are likely to finish over \$9000 in the green.

Initial / Current Balance			Cash Flow
Recommendation	(Cost) / Benefit of Recommendation	Frequency (single/annual)	\$ 2,701
<b>Property and Casualty Insurance</b>			
Purchase new HO3 policy	\$ (988)	A	\$ 1,713
Cancel old HO3 Policy	\$ 1,200	A	\$ 2,913
Add/Purchase Personal Articles policy	\$ (488)	A	\$ 2,425
Purchase new auto policies	\$ (1,232)	A	\$ 1,193
Cancel old automobile policies	\$ 3,000	A	\$ 4,193
Buy Watercraft policy	\$ (276)	A	\$ 3,917
Buy Collectables policy	\$ (200)	A	\$ 3,717
Buy PLUP	\$ (297)	A	\$ 3,420
			\$ 3,420
<b>Life Insurance</b>			
Buy James Term	\$ (2,340)	A	\$ 1,080
Buy Stephanie Term	\$ (1,815)	A	\$ (735)
Buy Waiver of Premium Rider	\$ (1,080)	A	\$ (1,815)
Surrender James Whole Life Obtain Cash	\$ 9,950	One time	\$ 8,135

Pay Tax on James Whole Life (assumptions made)	\$ (231)	One Time	\$ 7,904
Surrender Stephanie Whole Life	\$ 9,650	One Time	\$ 17,554
Pay Tax on Stephanie Whole Life (assumptions made)	\$ (247)	One Time	\$ 17,306
Pay Group Term Premia (Anderson policies)	\$ (469)	One Time	\$ 16,837
			\$ 16,837
<b>Estate</b>			\$ 16,837
Probate Attorney	\$ (5,000)	One time	\$ 11,837
Last Pass	\$ (48)	A	\$ 11,789
<b>Employee Benefits</b>			\$ 11,789
Terminating current vision and dental out of pocket payments	\$ 325		\$ 12,114
Premium for dental (37.01 * 26)	\$ (962)		\$ 11,152
Medical and health insurance premiums pre tax section 125 plan (420*12)	\$ 5,040		\$ 16,192
New medical and health insurance premiums (399.89 * 26)	\$ (10,397)		\$ 5,795
Identity Guard (108 yr)	\$ (108)		\$ 5,687
BeWell Program (50 month * 12)	\$ 600		\$ 6,287
			\$ 6,287
<b>Investments</b>			\$ 6,287
Capital gain tax for reallocating the joint taxable account	\$ (1,500)		\$ 4,787
			\$ 4,787
<b>Charity</b>			\$ 4,787
Distribution from Inherited IRA	\$ 16,500		\$ 21,287
Tax from Distribution	\$ (4,909)		\$ 16,378
Cash donation to charity	\$ (9,255)		\$ 7,123
			\$ 7,123
<b>Education</b>			\$ 7,123
Elizabeth \$30,000 gift for both kids	\$ 30,000		\$ 37,123
Contribution to kids 529 account	\$ (30,000)		\$ 7,123
Stop current contribution to 529	\$ 7,200		\$ 14,323
			\$ 14,323
<b>Debt</b>			\$ 14,323
Stop paying minimums on credit cards	\$ 600		\$ 14,923
Start paying 625 a month for ten months to eliminate CC debt	\$ (625)		\$ 14,298
			\$ 14,298
Cost of this Plan	\$ (5,000)		\$ 9,298

<b>Final Balance</b>			<b>\$ 9,298</b>

## Ratio Analysis

### Emergency Fund

You have expressed a desire to have sufficient emergency funds. The standard for emergency funds is 3 to 6 months of non-discretionary. You currently have 3.79 months.

Emergency Fund = cash and cash equivalents/monthly non-discretionary

$$a. \quad \$24,900/\$6,561.58 = 3.79$$

Your emergency fund ratio is 3.79. This tells us with your current assets, you could cover all of your monthly non-discretionary bills 3.79 times. In other words, in the event of an emergency, you could cover your mandatory bills for 3.79 months. That is a little low, but in effect, you will also have \$9298 in Final Balance that can be used for emergencies this coming year.

### Debt

Total debt to total net worth = total debt/total net worth

$$a. \quad \$297,406/\$1,343,184 = .2214$$

This ratio tells us what percentage of your net worth is tied up in total debt. For every dollar of net worth you have, you have 22 cents of total debt. Through our recommendations, we are decreasing your debt and increasing your total net worth, which would decrease this ratio.

We will revisit these ratios next year when you come in for your new plan.

# Life Insurance Planning

<b>Cash Flow and Net Worth Analysis</b>
<b>Life Insurance Planning</b>
<b>Property and Casualty Insurance Planning</b>
<b>Retirement Planning</b>
<b>Investment Planning</b>
<b>Debt Planning</b>
<b>Education Planning</b>
<b>Employee Benefits Planning</b>
<b>Charity Planning</b>
<b>Estate Planning</b>
<b>Tax Planning</b>
<b>Implementation and Monitoring</b>

## Introduction

Life insurance is something every financially complete household should have. It provides income protection to your family if the worst happens: a premature death. It is important because it protects your spouse and kids from financial ruin if something were to happen to either one of you. After evaluating your life insurance policies, we have some recommendations to strengthen your life insurance positions.

## Goal

The goal is to provide adequate income replacement for your family at a reasonable cost in the event of the premature death of either of you.

## Assumptions

1. You are both currently healthy, with no known health conditions affecting longevity.
2. There are some longevity issues and concerns on both sides of the extended family.
3. We assumed a six percent (6%) **real rate of return**<sup>1</sup> on investments after the survivor's retirement.

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<sup>1</sup> "Real rate of return" is an inflation adjusted rate of return on investments. This rate is derived by compounding (growing) the investment at one rate, while simultaneously reducing it by a presumed rate of inflation (discounting).

4. We are using your assumption that college will cost \$15,000 a semester (\$30,000 a year) including tuition, room and board.
5. The date of this plan is June 1, 2023.

## Current Situation

You currently have two **whole life**<sup>2</sup> policies: one for Stephanie and one for James. You each have **group term life**<sup>3</sup> insurance through your employer as well. Anderson also provides James group term in the same amount as your basic group term life insurance coverage at no cost to you. The Anderson coverage is set to begin July 1, 2023. The amount of group term life insurance coverage is equal to two times your annual salary (not including bonuses). The Anderson coverage also includes an accelerated benefit that allows you to request prepayment of benefits in the event that you become terminally ill. You may request up to eighty percent (80%) of your benefit amount, up to \$500,000, to help you with expenses while you are still living. If you die prematurely, your death benefit will be paid to your beneficiary and will equal two times your annual salary, for a maximum of \$2 million. We believe that you need some adjustments to your life insurance policies.

## Understanding Whole Life Versus Term Insurance

Term insurance provides life insurance coverage only if you expire within a specified period (the term). In contrast, whole life insurance provides coverage for your entire life. Term insurance can be used for basic life insurance needs, i.e. for income replacement in the event of premature death. With term insurance, there is no cash value building up over time, and you cannot invest within the policy. Families use Term Insurance as income replacement in the event of one or both of your premature death.

In contrast, whole life policies build up cash value from your premiums and allow you to invest. This may be helpful for clients who want to use their life insurance as a savings account, as well. Whole life is used as a vehicle to pass tax free money to heirs/beneficiaries, although there are much more efficient ways to accomplish this. Whole life is vastly more expensive than group term. This is something to consider when choosing life insurance.

## How much insurance do you need?

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<sup>2</sup> “Whole life” insurance policies are life insurance policies that pay death benefits without regard to a term, build cash value and have an investment component.

<sup>3</sup> “Term life” insurance policies are life insurance policies that pay a set death benefit ONLY if the insured dies during a specified, defined term. Term life policies do not build cash value and do not have an investment component.



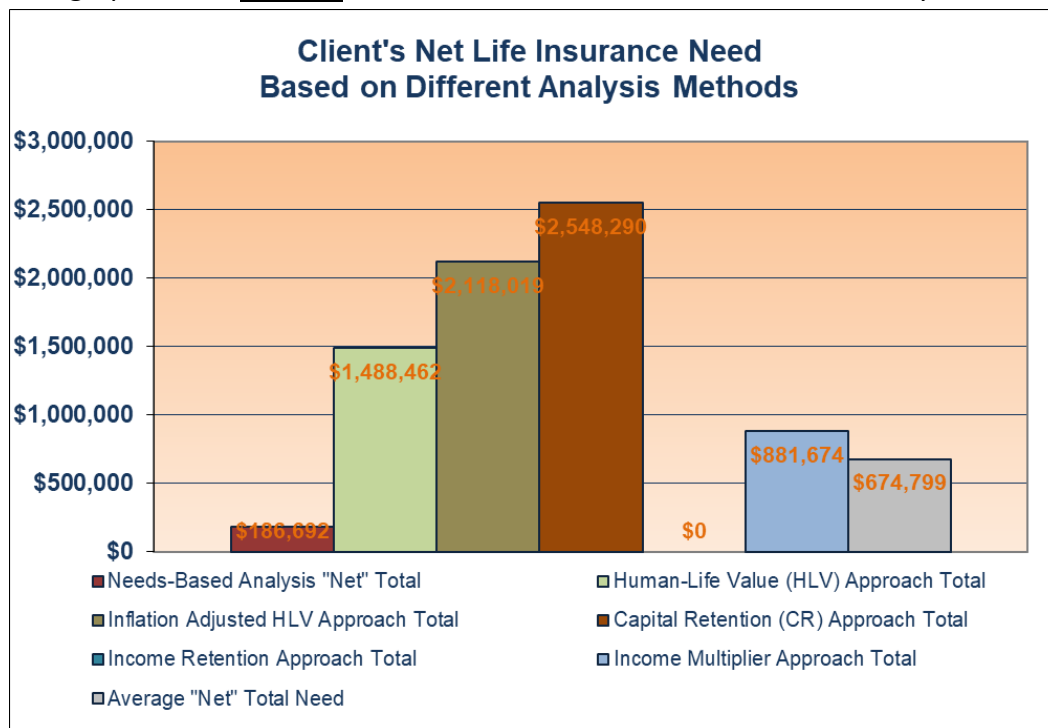
There are many different approaches that can be used when determining how much life insurance someone needs. The amounts needed differ depending on the approach taken. Some of the approaches include Needs Based Analysis, Human Life Value, Income Retention, Capital Retention and Income Multiplier.

For your life insurance needs we are using two different approaches to calculate your total need for life insurance. The Needs Based Analysis which focuses on covering your expenses in the case of premature death and the Human Life Value Approach which is described below. HLV takes the amount of salary today, multiplies it by 10X-20X and then sets that amount as the amount of life insurance a family would need based on the financial loss they would incur if the insured were to die today. The issue with the Human Life Value Approach is that it does not take into account your funding education goal or covering your remaining mortgage liability. By comparing these two separate methods we will be able to cover your priorities like the mortgage and education objectives while also giving your family the security of having an income in the event of premature death. We are recommending that you get coverage of \$1.5 million to cover your survivor expenses, mortgage payoff, and funding your childrens' education. Along with this individual \$1.5 million coverage each, we are recommending that you continue to participate in the group term insurance with Andersen. Since you have expressed that you are planning on staying in both your jobs, we want to take the group term insurance into account. This will raise your total coverage to around \$1.75 million ensuring that you are covered in the event of premature death.

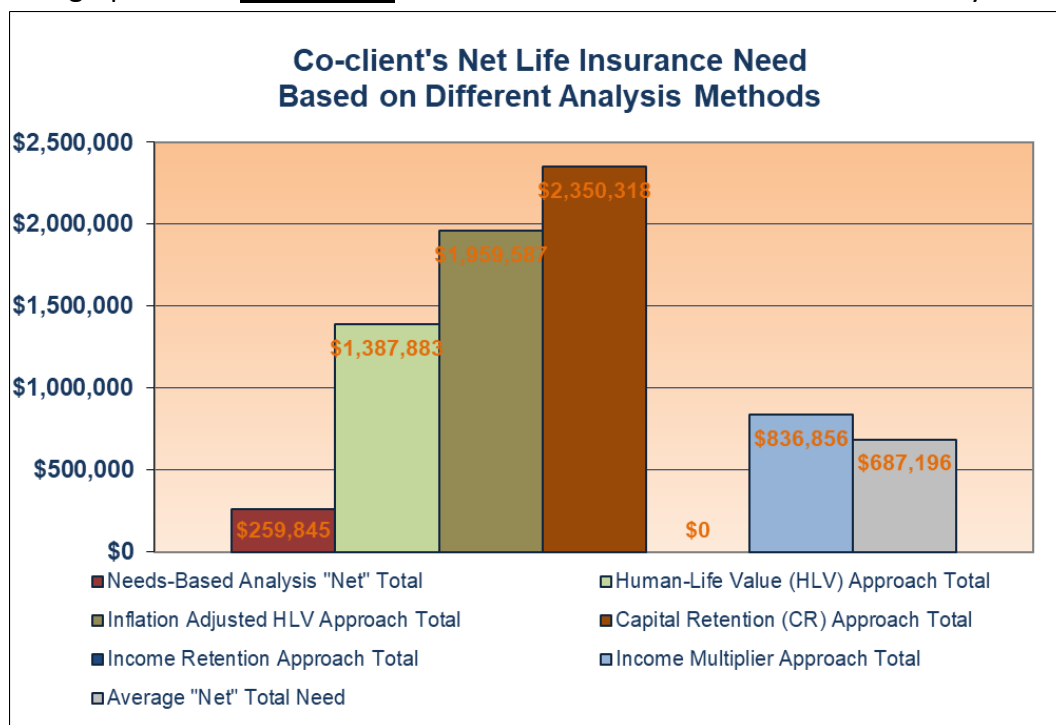
Looking at others we feel that the Income Multiplier Approach is too simplistic, and does not adequately factor in age, potential earnings growth, or number of dependents. On the other hand, we feel that the Capital Retention Model is too conservative. This method in effect doubles the amount of insurance proceeds that the surviving spouse would have if the other spouse dies prematurely. That is why this method yields such a high number. In your circumstances, being too conservative is not a priority considering your cash flow and already good financial position.

You mentioned that you would like to fully fund your childrens' education. We have calculated that with the \$15,000 gift from Elizabeth and the current savings that you have, you are very close to your goal already of covering those expenses. This is assuming an inflation rate of 4% and 5% for each of your children respectively, along with rates of return of 8% and 9% for each of your children. We will explain the rationale for choosing these rates in the Education Chapter.

This graph shows **James's** life insurance needs based on different analysis methods.



This graph shows **Stephanie's** life insurance needs based on different analysis methods.



After analyzing your life insurance needs using the HLV and Needs Based approaches, we recommend you each buy a **20-year term policy with a face value of \$1.5 million**. This means that each of you would receive \$1.5 million in life insurance proceeds, tax free, in the event of the other's premature death. (For the sake of accuracy: the irrevocable life insurance trusts (ILIT) we set up would receive the funds, *see below*).

## Option 1

### 1. Buy Term Insurance

We recommend buying a 20-year term policy with a death benefit of \$1.5 million on each of your lives (two policies total). This will provide income replacement for each in the event of premature death. It will provide income replacement for the children until they are 33 and 30, far past their college ages (and graduate school needs), and for you almost until retirement age (64 or 65). You are currently paying \$2184.00 a year ( $\$182 * 12$ ). We have found quotes from State Farm Insurance. As mentioned before, term insurance is much less expensive. James's policy would cost \$2,340 (\$1.56 per \$1,000 in coverage) annually. Stephanie's policy would cost \$1,815 (\$1.21 per \$1,000 in coverage) annually. In total, this would cost **\$4,155 a year**.

**This would increase your costs by \$1,971 extra a year.**

State Farm also offers a **waiver of premium** rider. This means that the insurance company will waive your life insurance premium in the event you become disabled and are unable to make these payments. This waiver ensures that you will not have a lapse in coverage if you are no longer able to work and pay this premium. This would cost \$540 a year for James and \$540 a year for Stephanie (.36 per 1,000). In total, **this would cost \$1,080**. Statistics vary, but experts say you have almost a 40% chance of becoming disabled during your working lives<sup>4</sup>.

**This would increase your costs by \$1,080 extra a year.**

### Implementation - Buy term insurance

Who?	James and Stephanie
What?	Buy term insurance
Where?	State Farm Insurance Company.
When?	Choose in early June, benefits start on July 1st, 2023

<sup>4</sup> Three in ten workers ages 25-65 will experience a disability that keeps them from work for 3 months or longer. Males have a 43% chance of becoming disabled during their working years; females have a 54% chance. <https://www.lifeinsure.com/disability-facts-and-statistics/>; <https://www.metrodi.com/sales-tools/disability-insurance-statistics/>

<b>Why?</b>	We have found a better suited life insurance policy for you and term insurance is financially lines up with your family
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg), (540) 552-0841.
<b>How much?</b>	\$4,155 a year or \$5,235 with waiver of premium rider

## 2. **Surrender**<sup>5</sup> Whole Life Policies

**After your new term policy is in effect**<sup>6</sup>, we recommend surrendering your whole life policy. The death benefit on each is inadequate given both of your incomes. The policy on James' life only pays \$150,000 in death benefit and \$100,000 on Stephanie.

James's policy has a **cash value**<sup>7</sup> of \$9,950 and he pays \$1,164 a year in premiums. Stephanie's policy has a cash value of \$9,650 and she pays \$1,020 a year in premiums. Combined, you have a cash value of \$19,600 and you pay \$2,184 a year in premiums. Under our calculations, you need a death benefit of at least \$1.5 million each to be adequately covered. If you wanted to keep the whole life policy, your premiums would increase. It would cost James \$16,550 a year and Stephanie \$14,420 a year for a face value of \$1 million. This is very costly and does not provide the coverage you need. As mentioned above, a whole life policy can be used to accumulate cash value and invest. However, your whole life policy only earns 3% after tax. We can increase this return significantly by using normal investment accounts. We will discuss this more in the investment section.

If you were to surrender both whole life policies, you would owe tax on the cash value being distributed. The amount of the **basis**<sup>8</sup> is considered a tax-free return of principal. However, you will be required to pay tax on the amount you receive over the cash basis. This will be taxed as **ordinary income**<sup>9</sup> to you. In order to determine exactly how much tax you will owe, we will need to see your policy illustration. This will help clarify all the assumptions we have to make. For example, we will need to know how many dividends have been paid and how much of your premium is actually allocated to the cash value versus the underlying cost of insurance.

<sup>5</sup> "Surrender" is canceling your insurance policy with the relevant company.

<sup>6</sup> You cannot surrender your current life insurance until AFTER the effective date of your new recommended term life policy. To do so would leave you uninsured for a period of time. Please wait until after the effective date of your new term policies to surrender any existing life insurance policy.

<sup>7</sup> "Cash value" is the value of your whole life insurance policies to date. It is the amount you would receive, less surrender fees, if you surrendered your whole life policy.

<sup>8</sup> "Basis" is the non-taxable amount of the proceeds.

<sup>9</sup> "Ordinary income" is any type of income that is taxable at ordinary income rates.

However, we have provided a rough calculation on how much tax we think you will owe by surrendering your whole life policy.

1. James's Tax Liability for Surrendering his Whole Life Policy:

Your basis is equal to the amount of premiums you have paid. You currently pay \$1,164 a year in premiums. We needed to determine how long you have had the account for so we assumed you started with a cash value of \$0 (PV) and ended with a cash value of \$9,950 with a growth rate of 3% annually. We then solved for the number of years and concluded that you have had the policy for 7.72 years. This means that you have paid \$1,164 for 7.72 years for a total of \$8,986. This is your basis. Your cash value is currently worth \$9,950 minus your basis of \$8,986. This means you must pay taxes on your \$964 gain at your ordinary rate.

2. Stephanie's Tax Liability for Surrendering her Whole Life Policy:

Your basis is equal to the amount of premiums you have paid. You currently pay \$1,020 a year in premiums. We needed to determine how long you have had the account for so we assumed you started with a cash value of \$0 (PV) and ended with a cash value of \$9,650. This account grew at 3%. We then solved for the number of years and concluded that you have had the policy for 8.45 years. This means that you have paid \$1,020 for 8.45 years for a total of \$8,619. This is your basis in the policy. Your cash value is currently worth \$9,650 minus your basis of \$8,619. This means you must pay taxes on your \$1,031 gain at your ordinary rate which we assume to be 24%. Your tax bill increase will be reflected in your income tax section of your financial plan.

When you surrender your whole life policy, you will receive \$19,600 from the cash value. However, you will be required to pay taxes on \$1,995 (\$964+\$1,031). Everything else is a return of basis and will be distributed to you tax free. Again, this is a rough estimation. Please email us your policy illustration for a more accurate calculation.

In most cases, you'll also be charged surrender fees. So please reach out to your current insurance company and ask how much.

**Implementation - Surrender Whole Life Policy**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Surrender whole life policy and receive cash value of the policies
<b>Where?</b>	State Farm Insurance Company.
<b>When?</b>	After getting term insurance coverage starting on July 1st, surrender whole life policy

<b>Why?</b>	We found a better suited life insurance policy for you and whole life insurance does not make sense financially for your family
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg), (540) 552-0841.
<b>How much?</b>	Your tax bill will increase by around \$478.80

### Policy Replacement Analysis

The yearly-price-per-thousand (YPT) formula helps us determine the cost per thousand a client pays for a policy. When the price per thousand is **greater than two times** the benchmark price, the client should consider replacing the policy.

I will use James's whole life policy for this example.

After calculating this, we see James currently pays \$5.22 per \$1,000 of coverage. Although this does not indicate we should sell the policy, it is important to note that you are **underinsured**<sup>10</sup>. You need a face value amount of at least \$1 million. Quotes from State Farm indicate that with a face value of \$1 million, you would pay \$16.55 per \$1,000 which is greater than two times (\$10.44) the yearly price per \$1,000 benchmark (see chart below).

#### Benchmark Premium Prices Based on the Yearly-price-per-thousand Formula

Age of Client	Yearly Price per \$1,000 (Benchmark)
Less than 30	\$1.50
30–34	\$2.00
35–39	\$3.00
40–44	\$4.00
45–49	\$6.50
50–54	\$10.00
55–59	\$15.00
60–64	\$25.00
65–69	\$35.00
70–74	\$50.00
75–79	\$80.00
80–84	\$125.00
Source: Adapted from Belth, J. M. <i>Life Insurance: A Consumer's Handbook</i> , 2nd Ed. (Bloomington, IN: Indiana University Press, 1985).	

We have found that with a term insurance policy you can get more “bang for your buck.” Term insurance will also guarantee that your family will be covered in the event of premature death until after the children are out of the house and you both are close to retirement. A 20-year term

<sup>10</sup> “Underinsured” means having inadequate insurance to meet your needs.

is more on the conservative side. If you look below at the benchmark table that we provided it lays out what the “average” person would be paying for premiums based on their age.

As you can see from the table above \$5.22 per \$1,000 is above what you should be paying. The same can be said for Stephanie’s whole life policy as well. We wanted to provide this quick calculation to show that paying for a whole life policy is not the most cost efficient.

**★ Also, it is important to note that you should NOT cancel your current policy until after a new policy is in place.**

## Option 2

Another option is for you to surrender both whole life policies and buy less term insurance than above. If you feel like insurance is not something you want, you could buy less. Under Option 1, we recommended you buy a 20-year term policy with a \$1.5 million face value. Currently, you both have group term insurance through Anderson already. James’s coverage is equal to \$257,296 (2 x \$128,648). Stephanie’s coverage is equal to \$233,664 (2 x \$116,832). We would be comfortable recommending you buy a 20-year term policy with a face value of \$1.25 million since you have this group term coverage as well. This would cost James \$1,950 a year. This would cost Stephanie \$1,512 a year. In total, this would cost \$3,462 a year. This would only save you \$693 from Option 1. This is something to consider if you need a little extra cash flow. We would also recommend the waiver of premium rider which would only be \$450 each which would total \$900.

This option is a riskier approach because if James loses his job, then he loses the group term insurance for him and Stephanie. This option overemphasizes the group term insurance component in comparison to Option 1.

### Implementation - Buy term insurance

<b>Who?</b>	James and Stephanie
<b>What?</b>	Buy term insurance
<b>Where?</b>	State Farm Insurance Company.
<b>When?</b>	When Andersen’s benefits are able to be picked in early June 2023 and then implemented July 1, 2023
<b>Why?</b>	We have found a better suited life insurance policy for you both
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg), (540) 552-0841.

How much?	\$3,463 a year or \$4,363 with waiver of premium rider
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## Naming Beneficiaries on your Life Insurance Policies

Choosing a **beneficiary**<sup>11</sup> for your life insurance policies is straightforward, but it is important to make sure that it is done correctly. We recommend that you name two beneficiaries: a **primary**<sup>12</sup> beneficiary and a **contingent**<sup>13</sup> beneficiary. You should name your spouse as the primary beneficiary.

### What happens if you name a child as a beneficiary?

Legally, minors cannot hold money on their own. A life insurance company will not release a policy payout to a child who has not reached the “age of majority” (18 years old). If a minor is named the beneficiary of a life insurance payout, they will be unable to receive the money directly. If we are not careful, the decision regarding what to do with the proceeds will be determined by the probate court and it will name a guardian for the minor’s estate. The guardian would retain oversight of the estate and its money until the child reaches age 18. You do not want this to happen as it is costly and does not ensure the money goes where you want and is used for what you want.

You have several options to address these potential problems:

1. Name the children as the contingent beneficiaries of the life insurance policies and have provisions in your will establishing an UGMA or UTMA account with an assigned custodian (you chose) for the accounts. A custodian is a trusted person who will manage the distribution to a child and safekeeping of any financial assets while he or she is still a minor. You can also name a guardian (Stephanie's oldest sister) as a contingent beneficiary. If you are not certain about naming your child as a beneficiary on your insurance policy, consider naming the child’s guardian if you both die simultaneously.
2. Establish two irrevocable life insurance trusts (ILITs<sup>14</sup>) now, with a professional trust company (trustee) named as the trustee. These trusts would be named as the beneficiaries of the life insurance policies and the proceeds would flow directly into the

<sup>11</sup> “Beneficiary” means a person who will benefit or derive an advantage from a trust, will or life insurance policy.

<sup>12</sup> “Primary” beneficiary is the person who is first in line to receive a benefit or derive an advantage from a trust, will or life insurance policy.

<sup>13</sup> “Contingent” beneficiary is the person who will receive a benefit or derive an advantage from a trust, will or life insurance policy **only** if the primary beneficiary is incapable of taking because of death or incapacity or refuses to take by using a disclaimer.

<sup>14</sup> ILIT is an irrevocable life insurance trust. It is set up now by you and is irrevocable. The trust owns the life insurance policy. Each of you pays the premium on the policy, by “gifting” it to the trust. The children are the beneficiaries. You hire a professional trustee through a trust company.



trust on each of your deaths. A professional trustee, with trust management and investment experience would manage the proceeds until a certain age of the children or forever.

There is no wrong choice here, it is whatever you are most comfortable with!

## Recommendation

We recommend Option 1: Buy a twenty (20) year term policy for each with \$1.5 million in death benefit and surrender your whole life policies. We also suggest obtaining the group term insurance provided by Anderson for James and Stephanie. These group term policies cover 2X each of your salaries (not including bonuses). This will bring your total life insurance coverage up to 1.7 million plus for each of you (\$1,757,296 for James, \$1,733,664 for Stephanie).

There is a problem with James' group term insurance policy. He has named his estate as the beneficiary. This means that the death benefit on his policy would be disposed of in the probate process, rather than go directly to Stephanie or your children. We recommend you set an ILIT now for James policy, making Stephanie the beneficiary initially and the children as contingent beneficiaries (as managed by the ILIT). Stephanie, you should do the same, and set up an ILIT with James as your primary beneficiary and the children as contingent beneficiaries.

## Section 79 income

The premiums on the first \$50,000 of group term life insurance are tax free to you. The premiums for the excess amounts of insurance, the "exclusion" amounts set forth in the table, are deemed "income" to you under section 79. The table sets forth how much income you are deemed to receive.

The calculations regarding income taxes and your group term premia are set forth in this chart.

	James	Stephanie
<b>Annual Salary</b>	\$ 128,648.00	\$ 116,832.00
<b>2x Annual Salary</b>	\$ 257,296.00	\$ 233,664.00
<b>Exclusion</b>	\$ 207,296.00	\$ 183,664.00
<b>Divided by 1000</b>	\$ 207.30	\$ 183.66
<b>Times cost rate .10</b>	\$ 20.73	\$ 18.37
<b>Times 12 mos .10</b>	\$ 248.76	\$ 220.40
<b>Yearly inclusion into income</b>	\$ 248.76	\$ 220.40

This is a table summarizing your net benefits from our recommendations in Option 1. Please review it carefully.

	Summary Table Option 1		
	Save/cost	Calculation	Net
Buy Term Insurance (James)	Cost	(\$2,340)	(\$2,340)
Buy Term Insurance (Stephanie)	Cost	(\$1,815)	(\$1,815)
Buy Term Insurance with waiver of premium rider	Cost	(\$540) + (\$540)	(\$1,080)
Surrender Whole Life Policy (James)	Save	\$9,950 - \$231.36	\$9,718.64
Surrender Whole Life Policy (Stephanie)	Save	\$9,650 - \$247.44	\$9,402.56
Pay Group Term Premia	Cost	(\$248.76) + (\$220.40)	(469.16)
<b>Total (net)</b>			<b>\$13,417.04**</b>

\*\*This number is the cash flow for July 1, 2023-June 30, 2024, the policy premiums for the new term insurance are yearly amounts.

## Monitoring

We need to be notified as soon as something important in your life changes. It is important for us to understand your overall health, birth, divorce, or any significant changes to your income, your debts and your assets. Significant changes such as these would require us to revisit your life insurance policy and make appropriate updates.

# Property and Casualty Insurance Planning

Cash Flow and Net Worth Analysis
Life Insurance Planning
Property and Casualty Insurance Planning
Retirement Planning
Investment Planning
Debt Planning
Education Planning
Employee Benefits Planning
Charity Planning
Estate Planning
Tax Planning
Implementation and Monitoring

## Introduction

Property and casualty insurance is important. It protects you from your unexpected losses and protects you from losses you cause other people (indemnity). Providing **indemnity**<sup>15</sup> is important, but insurance will also cover litigation fees and cost in the event you are sued. Fees and costs to lawyers in the event of an accident can easily reach \$100,000. Your insurance will pay an unlimited amount for these attorneys' fees and costs. Appropriate property and casualty insurance helps protect your property, but even more, it protects your piece of mind.

## Goals

You have already done a wonderful job coming to us with your questions about insurance (i.e. your PLUP inquiries). With your "always be prepared" mindset our goal for you with respect to property and casualty insurance is to affordably obtain a level of coverage that covers you adequately for risk of loss to the property. This will also cover almost any conceivable injury (liability) to another, as well as the fees and costs associated with lawsuits.

## Assumptions

**Assumption 1.** We assume that stated value is not a choice for your HO policy.

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<sup>15</sup> "Indemnity" is the legal obligation to pay the damages sustained by another. It is security against a loss.

**Assumption 2.** We assume that HO5, an open perils policy or HO-3 with an open perils rider is not available for you to purchase.

**Assumption 3.** We assume that the watercraft does not currently have insurance.

**Assumption 4.** We assume that you want to take all reasonable and economic efforts to lessen the threat from liability (lawsuits).

## Current Situation

You own your home and currently have an HO-3 (homeowner's) insurance policy on your home, with \$300,000 on the **dwelling**<sup>16</sup> and a \$100,000 **liability**<sup>17</sup> limit. **Contents**<sup>18</sup> are covered for \$150,000 and medical payments<sup>19</sup> are covered for up to \$3,000. Your deductible is \$750 and your premium is \$1,200 per year. The home's current value is \$375,000 and its contents value is \$75,000. Its purchase price was \$365,000 and its current replacement cost is estimated at \$390,000.

Right now, you have done a great job and have full coverage on both of your vehicles. The vehicles have 100/300/50 liability limits and uninsured/underinsured motorist limits. This means that you have \$100,000 bodily injury coverage per person, \$300,000 bodily injury coverage per occurrence (per accident), and \$50,000 total property damage limits. Your insurance also includes \$5,000 medical payment<sup>20</sup> coverage, car rental and towing coverage of \$1,000 per occurrence. The deductibles are \$500 for comprehensive and \$500 for collision. Your premium is \$3,000 a year (\$1,500 semi-annually).

You also have valuable personal property in the home. This consists of: the John Deere Tractor, your diamond ring and wedding bands, other jewelry, the antique place settings and the golf clubs. Currently, you do not have personal property riders/endorsements covering these items.

James has a valuable collection of about \$25,000 in unopened vinyl records, all appreciating. The vinyl collection is not separately insured as collectibles.

You do not currently have an umbrella policy but have expressed some interest in obtaining one. Lastly, you own a boat, but do not have an insurance policy covering it.

## Option 1

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<sup>16</sup> "Dwelling" is the home itself. Dwelling coverage pays for damage to repair the physical structure of the home.

<sup>17</sup> "Liability" is the coverage for injuries sustained by others in your home or caused by members of your household outside the home. It covers you for damages caused by members of your family and pets.

<sup>18</sup> "Contents" are the contents, the personal property inside your home.

<sup>19</sup> "Medical payments" coverage helps pay you or your passenger's medical expenses if injured in a car accident.

<sup>20</sup> "Medical payments coverage" in this context (home) means payments for medical bills for guests that are injured in your home, regardless of fault.

Our recommended options involve: (a) changing your homeowners' policy to replacement cost of \$390,000, (c) obtaining personal property riders/endorsements, (b) obtaining insurance for the watercraft, (d) insuring the record collection, (e) maxing out the liability portions of your homeowners, automobile and boat policies, and thereafter, (f) obtaining an personal liability umbrella policy (PLUP).

## Home

We recommend purchasing the policy set forth below.

The table below sets forth the cost for Option 1.

Coverages	Limits	Annual Premium
Dwelling	\$ 390,000.00	\$ 1,353.00
Dwelling Extension	\$ 39,000.00	
Personal Property	\$ 292,500.00	
Liability	\$ 300,000.00	\$ 6.00
Medical Payments	\$ 5,000.00	\$ 9.00
Deductibles	\$ 1,000.00	\$ 189.00
Home/Auto Discount		\$ (376.00)
Claim Free Discount		\$ (257.00)
Back-Up Sewer & Drain		\$ 64.00
Total Premium		\$ <b>988.00</b>

You are currently paying \$3,000 a year in premiums. This would **save you \$2,012.00**.

We will now explain each portion of the proposed bill above and our recommendation for each.

### 1. Dwelling (Home)

Your current homeowners' policy, HO-3, is inadequate as to the limits and as to the coverage. We would recommend purchasing an HO-5, **open perils** policy, however that is unavailable in Virginia.

Your current policy, an HO-3, is a **named perils** policy. It only covers you for sixteen named perils. It does not cover you in the event of mold, drain/sewer backup, or flood.

Homeowner's policies generally cover four things: Dwelling (and dwelling extensions), personal property, liability, and medical payments.

With an HO-3 policy, your dwelling and extension (home and garage) will be covered in the event of a loss only if that loss is caused by one of the sixteen named perils: (1) fire or lightning, (2)

windstorm or hail, (3) explosion, (4) riots, (5) aircraft, (6) vehicles, (7) smoke, (8) vandalism, (9) theft, (10) falling objects, (11) weight of ice, snow or sleet, (12) accidental discharge or overflow of water or steam, (13) sudden and accidental tearing, cracking, burning or bulging, (14) freezing, (15) sudden and accidental damage due to short circuiting, and (16) volcanic eruption.

Your home will be covered in the event of a loss caused by one of those sixteen named perils (causes), except in instances of flood, earthquake, nuclear accident, war, or mold.

Currently, you are underinsured as to the structure (\$300,000), and over insured as to its contents (\$150,000). We recommend you select a new HO-3 policy with 100% Replacement Cost (not Actual Cash Value (ACV)<sup>21</sup>) for the structure. Replacement Cost will pay the full cost to reconstruct the house to where it is today, \$390,000. Historically, the price of building materials has been relatively high but we are seeing prices decrease so we think \$390,000 is an accurate number for now. We will want to revisit this next year to see how prices have changed. ACV is merely the market value of this home, \$375,000. In the event of a loss, ACV would leave you underinsured because the replacement cost of the home (\$390,000) would exceed the current market value (\$375,000). Making this choice will ensure that your home gets rebuilt.

Another advantage to this new proposed policy is that it includes an automatic inflation rider and an automatic 20% increase for unexpected reconstruction costs. If building materials continue to rise, they will still be covered in the event of a total loss. If they rise unexpectedly by 20% or less, you will be covered. You want replacement cost with these riders as you have granite and stainless steel in the kitchen and hardwood on the main level.

Yet another reason why you should have replacement cost is that in the event of a total loss, you will want the home to be rebuilt as quickly as possible without delay. If the home is destroyed, you will need somewhere to stay. James' parents live nearby in Radford, but staying with them would be an imposition. In the event of a total loss, you want the home rebuilt as quickly as possible and do not want any squabbles with the insurance company about how much they will cover. With replacement cost, the home will be rebuilt with today's materials and all of that will be covered.

**The key is not to go uncovered for any period of time.** This means that you must buy the new HO3 first, and then once it is effective, cancel your current HO-3. You will be refunded the unused portion of the premium.

## **2. Personal property and personal articles policy/endorsement (PAP)**

Another advantage to choosing a new HO-3 policy with replacement cost is that personal property items would be replaced on a 100% replacement cost, not a depreciated value. The home's contents are worth \$75,000 and they would be completely replaced in the event of a loss. Currently you have \$150,000 coverage for personal property, twice what you need. This

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<sup>21</sup> We are assuming stated value is not an available choice.

proposed policy will cover up to \$292,000 of items in the house. You will be getting \$142,000 more of coverage for less.

The “personal property” coverage set forth above may not adequately cover certain higher value items in the home. For that reason, we recommend adding a personal articles endorsement to the policy (PAP) for the items set forth below: the yard equipment, your wedding rings and bands, the jewelry, the antique place settings and the golf clubs.

We also recommend endorsing the homeowner’s policy by adding the increased values for jewelry/furs to \$2,500/\$5,000. If you do this, those items would be covered on an all-perils basis (which is good, even though we could not get all perils coverage for the house itself). The coverage also insures your items for theft, loss, misplacement, or unexplained (mysterious) disappearance. In essence, if you select this coverage, the items listed below will be covered for loss for almost any reason. Further, there is no deductible on any items from any peril.

	Value	Cost per \$100 of Coverage	Total Annual Premium
Yard Equipment	\$ 1,500.00	\$ 7.50	\$ 112.50
Diamond Ring with Matching Band - Jewelry	\$ 15,000.00	\$ 0.78	\$ 117.00
Match Set For above		\$ 0.50	\$ 192.00
Jewelry	\$ 3,500.00	\$ 0.78	\$ 27.30
Antique Place Settings	\$ 1,500.00	\$ 0.32	\$ 4.80
Golf Clubs - Personal Use	\$ 3,200.00	\$ 1.08	\$ 34.56
<b>Total</b>			<b>\$ 488.16</b>

This will **cost you \$488.16 extra.**

### **3. Liability (Home) and medical payments**

The liability portion of an HO-3 policy will cover you both and your children for injuries they cause to another (until they are age 24 if they are full time students). The liability portion of the HO-3 policy also covers anyone who does not live in your home but is injured in your home.

You currently have only \$100,000 in liability coverage through your HO policy. We think that this is far too low, and you are significantly exposed to a risk of loss. We recommend raising all the liability limits on all your policies, including your HO. The most important aspect of this is the coverage of attorneys’ fees and costs. You do not want to be burdened with the expense of finding and hiring attorneys in the event of a liability-producing occurrence.

We recommend purchasing a HO policy that has at least \$300,000 in liability coverage. This will provide “extra” protection that you do not have currently for liability in your home or liability of household members. It also is more than enough to qualify for the PLUP. (See below)

#### **4. Medical payments**

The medical payments portion of the HO-3 policy covers up to \$5,000 in medical payments to others for injuries that occur within this home. This is intended to pay for “small” injuries (less than \$5,000) to people that occur in your home and curtilage.

#### **5. Backup sewer and drain**

We recommend you purchase a back-up sewer and drain endorsement. Damage from backed up sewers and drains is not covered under your current policy. These backups are expensive to fix and quite frankly, disgusting to resolve. This coverage will cost you a little more than \$5 a month and in our opinion this is worthwhile for the amount you would save from damage.

#### **6. Deductible**

We recommend a low deductible on the homeowners’ policy (\$1,000). You do not want to have to pay a large sum before insurance starts paying.

#### **7. Bundled savings**

We recommend you buy this policy through State Farm, so that you can bundle it with the other recommended policies and realize substantial savings. You may also be able to realize substantial bundled savings if you go with another insurance company, but they will require you to purchase (bundle) all of your insurance products with them, just like State Farm.

#### **Implementation - Homeowners**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Purchase new HO3 policy with replacement cost of \$390,000
<b>Where?</b>	State Farm Insurance Company.
<b>When?</b>	Immediately, but do not have a lapse in coverage
<b>Why?</b>	Because you are under-insured as to dwelling and liability.
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg), (540) 552-0841.
<b>How much?</b>	\$988 annually, which would save you \$212

#### **Implementation - PAP**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Purchase a PAP
<b>Where?</b>	State Farm Insurance Company



<b>When?</b>	Should be done at the same time as purchase of new HO3; but not required at that time
<b>Why?</b>	Because you are under-insured as to your personal personal articles and they may not be fully covered in the event of a loss
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg), (540) 552-0841.
<b>How much?</b>	\$488.16 annually, this is a new cost

## Automobiles

Even though you are fully covered for your automobiles, we found a cheaper option with better

### 2017 Dodge Grand Caravan

Discounts included in quote: MCD, MLD20, GDD

	Coverage	Premium
BIPD	250,000/500,000/100,000	\$ 107.88
UM	250,000/500,000/100,000	\$ 48.00
MED	\$ 5,000.00	\$ 16.87
COMP	\$ 500.00	\$ 24.68
COLL	\$ 500.00	\$ 79.12
ERS	\$100 Maximum	\$ 3.12
R	\$900 Maximum	\$ 16.05
Total	6 month premium	\$ 295.72

### 2019 Acura TLX V-6 Sedan, Dark blue

Discounts included in quote: MCD, MLD20, GDD

	Coverage	Premium
BIPD	250,000/500,000/100,000	\$ 109.75
UM	250,000/500,000/100,000	\$ 33.03
MED	\$ 5,000.00	\$ 15.17
COMP	\$ 500.00	\$ 33.74
COLL	\$ 500.00	\$ 109.39
ERS	\$100 Maximum	\$ 3.12
R	\$900 Maximum	\$ 16.05
Total	6 month premium	\$ 320.25

coverage for your car insurance. We recommend you buy the following policies with State Farm.

This **will save you \$1,768.06**. We will now explain what all these terms mean and why we believe the amounts are good choices for you.

### 1. BIPD- Bodily Injury and Property Damage

BIPD is the amount you would be covered for in the event you cause bodily injury or property damage to another. You currently have what is called 100/300/50 in BIPD on your vehicles. This means that you are currently covered for \$100,000 in bodily injury per person, \$300,000 in bodily injury per accident (total), and \$50,000 for property damage (total). Your current premium is \$3,000 annually. You are overpaying for your car insurance, and you are underinsured.

We recommend raising the liability limits on the policies to 250/500/100. This would cover you for liability for \$250,000 injury per person, \$500,000 per occurrence for injury and \$100,000 per occurrence for property damage. This would insure you for most claims you would face and would provide peace of mind. Just as above, most importantly, this would cover attorney's fees and costs (unlimited) which can be quite expensive. As you are homeowners, the \$500,000 per

occurrence would further protect you from your home being taken in a lawsuit relating to a car crash.

## **2. MED - Medical Payments**

The MED portion is medical payments to people in your car in the event of an accident. To state it another way: this policy would pay up to \$5,000 for medical bills incurred by people injured in your car as a result of the accident.

## **3. COMP - Comprehensive coverage**

The COMP portion is “comprehensive” insurance which covers damages to your car that are not caused by a collision with another car. You will have to pay the first \$500 for damages from things like wind, hail, and a tree falling on it. The insurance company will pay after that.

## **4. COLL - Collision**

The COLL portion is “collision” which covers damage to your car in the event of an accident. You will have to pay the first \$500 in damages to your own vehicle. The insurance company will pay the balance.

## **5. ERS - Emergency Roadside Assistance**

The ERS portion is emergency roadside assistance and means that it covers towing. You are covered for \$100 for that.

## **6. R - Rental assistance**

The R portion is for a rental car. This means that in the event your vehicle is undriveable because of an accident, you would be covered up to \$900 for a rental car.

## **7. MLD20 - Discount for bundling**

The MLD20 notation explains that you receive a discount for bundling home and umbrella with State Farm.

Your annual premium for accepting our recommendation and purchasing this policy would be \$1,214.76, as opposed to \$3,000 now, **saving you \$1,768.06**, preserving your current levels of non-liability coverage, and raising your liability limits to the maximums, so that you could qualify for the PLUP (see below). You will have nearly doubled your liability coverage just in the automobile policy. This also includes uninsured motorist coverage for the same amounts, so you would be covered in the event an uninsured or underinsured driver hurts you.

### **Implementation- Automobiles**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Purchase new automobile policies
<b>Where?</b>	State Farm Insurance Company

<b>When?</b>	High priority because you are overpaying and cannot get a PLUP without raising the limits
<b>Why?</b>	Because you are overpaying on insurance and you need to raise liability limits to qualify for PLUP
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg) (540) 552-0841.
<b>How much?</b>	\$1,214.76 annually

### The Watercraft

1. You currently own a 2014 Tracker Grizzly 1860 w/60 hp Mercury Engine. In your current situation your boat is uninsured, and it needs to be insured.

We recommend you purchase the following coverage on the watercraft. These are **semiannual** premiums:

	Coverage	Premium
Base	\$11,500	\$109.00
Personal Property	\$1,000	\$20.00
Liability	\$100,000	\$20.00
UI	\$100,000	\$30.00
Medical Payments	\$10,000	\$10.00
Deductible	(\$3,000)	(\$51.00)
Total		\$138.00

This proposed coverage is a nice blend of what you need. It covers the boat completely in the event of loss. It covers up to \$1,000 of personal property in the boat (coolers, chairs, sunglasses, radios). The liability limits of \$100,000 are the minimums needed to qualify for PLUP (see below). (Do not worry, if you have an accident in the boat and you are liable, it will be covered first by this policy, then the PLUP). It covers \$10,000 in medical payments for injuries to people in your boat and it has a high deductible. We chose the high deductible for two reasons: you have the financial ability to pay it and the higher deductible lowers your premiums. If you would like to lower the deductible, it could be lowered to as low as \$50, but your annual premium would only be reduced by \$102.00.

This would **increase your costs by \$276.00** (annual).

### Implementation - Watercraft

<b>Who?</b>	James and Stephanie
<b>What?</b>	Purchase boat insurance
<b>Where?</b>	State Farm Insurance Company
<b>When?</b>	Before you plan to use your boat next

<b>Why?</b>	Boats are liability magnets, damages are high, you currently have no insurance on it!
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg) (540) 552-0841.
<b>How much?</b>	\$276 annually

### **James' Record Collection**

#### **1. James' record collection.**

James's record collection is worth \$25,000 and is rapidly appreciating. We recommend an insurance policy on collectables. The annual premium would be \$200.

In order to get this policy, we need to document the collection. Here is what we will need to gather and provide: (a) how was the value established, (b) where is the collection kept, (c) how it is stored, (d) and any off-premises exposures (does James take the record collection anywhere?).

This would **increase your costs by \$200 annually**.

### **Implementation - Record Collection**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Purchase record collection insurance
<b>Where?</b>	State Farm Insurance Company
<b>When?</b>	Last priority
<b>Why?</b>	Your record collection is worth a lot of money and is rapidly appreciating.
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg) (540) 552-0841.
<b>How much?</b>	\$200 annually

### **PLUP**

#### **1. PLUP (Personal Liability Umbrella Policy)**

We recommend purchasing a \$2 million Personal Liability Umbrella Policy (PLUP). You currently meet the criteria for a Class 1 rating for your PLUP, which means that (a) all drivers in the house have at least 3 years of driving experience, (b) all drivers are less than 50 years old, (c) no drivers in the house are under the age of 25 and (d) all autos insured with the same company as the umbrella provider. Our current recommendations encompass all of those criteria, but as you get older (over 50) and the children reach driving age (16), we will need to revisit this policy.

To get a PLUP you must raise the current liability limitations on your automobile policies (to 250/500/100) and maintain at least \$100,000 in liability coverage in both the home and watercraft policies. Our recommendations encompass those limits.

To get a \$2 million PLUP for all activities, including the watercraft, your annual premium would be **\$297.00** (\$138 for the first million, plus \$132 for the second million, plus \$27 for additional exposures including the watercraft).

This \$2 million represents peace of mind. What this means is that if you or your children injure someone, after the limits of the individual insurance is exhausted (home, auto, boat), you would have an additional \$2 million in coverage over and above those limits. In addition, this policy also pays for attorney's fees and costs and provides yet another source to pay those.

This would **increase your costs by \$297.**

### Implementation

<b>Who?</b>	James and Stephanie
<b>What?</b>	Purchase PLUP
<b>Where?</b>	State Farm Insurance Company
<b>When?</b>	Once all the other policies are purchased and limits raised
<b>Why?</b>	Peace of mind; runaway attorney's fees and costs and liabilities
<b>How?</b>	Phone call to Eric Johnsen (Christiansburg), (540) 382-5552 or Nick Javins (Blacksburg) (540) 552-0841.
<b>How much?</b>	\$297 annually

### Summary Option 1

Here is a table containing all our recommendations, the cost or savings for each, and the net total under this option, which is a \$738.08 surplus.

	Summary Table		
	Save/cost	Calculation	Net
<b>Homeowner's Policy</b>	Save	\$1,200 - \$988	\$212
<b>Personal Articles Policy</b>	Cost	(\$488.16)	(\$488.16)
<b>Auto Policies</b>	Save	\$3,000 - \$1,231.94	\$1,768.06

<b>Watercraft policy</b>	<b>Cost</b>	(\$276)	(\$276)
<b>Record policy</b>	<b>Cost</b>	(\$200)	(\$200)
<b>PLUP</b>	<b>Cost</b>	(\$297)	(\$297)
<b>Total (net)</b>			<b>\$718.90</b>

## Option 2

Our recommendations with regard to replacement cost for the home (and contents), changing your auto policies, insuring the watercraft and James' record collection and maxing out the limits to obtain the PLUP are your best insurance options at this time.

You have options regarding cost. The differences in costs are largely due to raising or lowering the deductible and/or coverage amounts on the PLUP.

### Deductible

The deductible is simply the amount you pay before insurance starts to pay. Our current option for the homeowners insurance has a deductible of \$1000. You could raise the deductible you pay more before insurance starts to pay) and that would lower the premiums. If you raised the deductible to \$1950, your premium would lower to \$874.00 (saving \$114). If you raised the deductible to \$3900, your premium would lower to \$799.00 (saving \$189). If you raised the deductible to \$7800, your premium would lower to \$738.00 (saving \$250).

### PLUP

You could also choose less coverage on the PLUP. We currently have you maxed out on your liability components of your homeowners, watercraft, and auto policies. We cannot lower these limits and still be eligible to purchase a PLUP.

We could, however, lower the PLUP limits to \$1 million. That would only save you \$132 annually.

## Alternatives

**Alternative 1.** As one alternative, you could not insure the record collection. This would lower the total cost by only \$200. A two hundred dollar cost annually to insure an appreciating \$25,000 collection is a de minimis cost. It is your option whether to insure this collectible or not.

**Alternative 2.** Another alternative you may consider is selling the boat. Boats are liability magnets. Injuries in boats are severe both as to property (boats break apart easily) and to people (drowning, oxygen deprivation/brain damage, death). We recommended insuring the boat,

maxing out the liability on it and then also getting a PLUP. As an alternative, you can remove this massive liability by just selling the boat and whenever you want to go boating, renting a boat (and let **the boat owners'** insurance cover it).

## **Recommendations**

We are recommending "Option 1" at this time for your property and casualty insurance needs. They are as follows:

- Change your homeowners' policy to replacement cost of \$390,000
- Obtain personal property riders/endorsements
- Obtain insurance for the watercraft
- Insure the record collection
- Max out the liability portions of your homeowners, automobile and boat policies
- Obtain a personal liability umbrella policy (PLUP)

## **Monitoring**

Some monitoring items that we want to make sure that we stay on top of are:

1. If you purchase or lease any new asset, we would like to know so that we can properly advise you on what insurance to obtain and how the new asset fits into the insurance picture;
2. If you have any losses (insurance events), please notify us. We would like to advise you on reporting, deductibles, coinsurance requirements and potential insurance proceeds and recovery.
3. Please let us know when you have obtained the new homeowner's, watercraft, record collection and PLUP policies.

# Retirement Planning

<b>Cash Flow and Net Worth Analysis</b>
<b>Life Insurance Planning</b>
<b>Property and Casualty Insurance Planning</b>
<b>Retirement Planning</b>
<b>Investment Planning</b>
<b>Debt Planning</b>
<b>Education Planning</b>
<b>Employee Benefits Planning</b>
<b>Charity Planning</b>
<b>Estate Planning</b>
<b>Tax Planning</b>
<b>Implementation and Monitoring</b>

## Introduction

Planning for retirement is of concern to almost everyone. Being self-sufficient in retirement<sup>22</sup> is of major concern for you and is one of your main goals. You have done a great job saving for retirement up to this point. We have made it a priority to fund your retirement. The concept is to give you three different “buckets” to pull from during retirement. The three different “buckets” are tax-free<sup>23</sup>, tax-deferred<sup>24</sup>, or taxable accounts. Our firm likes to have a variety of buckets for our clients to pull from during retirement to optimize taxes.

## Goals

You have many important and interrelated goals relating to your retirement and you have already been doing a great job saving to this priority. Listed below are your priorities for retirement:

1. You wish to retire at 65 if possible.
2. To be self-sufficient in retirement, so you do not have to depend on your children for help.
3. Have the funds to travel (maybe overseas for a month) or travel with an RV.

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<sup>22</sup> This means to you: no relying on children for support in retirement.

<sup>23</sup> “Tax-free” accounts: are after tax accounts, accounts containing funds upon which tax has already been paid once. They are commonly denoted as “Roth” accounts, either Roth IRAs or Roth 401(k).

<sup>24</sup> “Tax-deferred” accounts are accounts for which current income tax has been deferred. The funds therein consist of deferred amounts of salary or wages and the tax is deferred until withdrawal, whereupon it is taxed at ordinary income rates.



4. Have \$100,000 for charitable contributions.

First, you wish to retire at age 65 if possible. You wish to be prepared for your financial future and raise self-sufficient adults who will contribute to society and not need their parents for support.

The next goal is for you to be self-sufficient in retirement. You do not want to depend on your children for help.

Another goal is to travel. You would like to either buy an RV and travel or maybe spend extended time somewhere (maybe renting an apartment in a foreign country or at the beach). You would also like to be able to visit your children and grandchildren.

Leaving a legacy for the children is not the main goal, however, you would like to pursue philanthropic endeavors. You asked us to consider if \$100,000 for charity could be set aside without jeopardizing the other goals. You wish to accomplish any charitable giving in the most tax-efficient manner.

## Assumptions

1. You are both currently healthy, with no known health conditions affecting longevity.
2. There are some longevity issues and concerns on both sides of the extended family.
3. You are willing to invest in a Moderately Aggressive portfolio to fund your travel plans and the house addition.
4. You would like to earn a Moderate rate of return pre-retirement.
5. You would like to assume a Conservative rate of return for your retirement years.
6. We assumed that each of your salaries would continue to grow at 3% a year each year until retirement.
7. We assumed an inflation rate of 3%.
8. We assumed a wage replacement ratio<sup>25</sup> (WRR) of 85%.
9. We did not account for any inheritance from Elizabeth. Since the potential for inheritance is uncertain as to timing and amount, we did not factor any potential inheritance from Elizabeth into it.
10. Your Required Minimum Distribution<sup>26</sup> (RMD) age is 75.

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<sup>25</sup> "Wage replacement ratio" is the percentage of current wages/income that you prefer to have replaced during the time in retirement. For example, if your WRR is 85%, you want 85 cents in retirement for every dollar you earned at the end of your working life.

<sup>26</sup> "Required Minimum Distribution" is a required distribution amount you must take from your tax deferred retirement accounts every year in the year after you turn 73. The calculation is last year's balance divided by this year's factor. It generally amounts to 3-3.5% of the balance of the account.

11. Medicare is a government sponsored health insurance program for seniors (age 65+). We have assumed it will be in existence when you reach 65 and that you will enroll in it when eligible.
12. The date of this plan is June 1, 2023.
13. The assumed parameters for various expected rates of return<sup>27</sup> are:

	<b>Expected Before-Tax Return</b>	<b>Estimated Target After-Tax Total Return</b>	<b>Maximum Portfolio Risk Beta</b>	<b>Target Standard Deviation for the Portfolio</b>
<b>Conservative</b>	5.0%	3.5%	<0.40	<7
<b>Moderately Conservative</b>	7.0%	4.9%	0.40 > 0.60	7-10
<b>Moderate</b>	8.0%	5.6%	0.60 > 0.80	10-14
<b>Moderately Aggressive</b>	9.0%	6.3%	0.80 > 1.00	14-18
<b>Aggressive</b>	10.0%	7.0%	> 1.00	>18

## Current Situation

Here are your retirement assets at present:

**1. James's 401(k)**

A 401(k) is an employee sponsored retirement savings plan. This is a tax deferred account worth \$366,600.

**2. James's Roth IRA.**

This is a tax-free account worth \$65,000.

**3. Stephanie's 401(k)**

This is a tax-deferred account worth \$61,100.

**4. Stephanie's Traditional IRA**

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<sup>27</sup> "Expected rates of return" are future returns that are expected based upon the current composition of the investment portfolio. They are based, at least in part, on historical rates of return and the variance of those returns. These are estimates, they are not guarantees.

This is a tax deferred account worth \$76,500.

In total, you have \$569,200 between these four accounts.

These accounts are growing. We have assumed that the accounts will continue to grow because (a) you continue to make deferrals and contributions into them, (b) your salaries will continue to grow at 3% a year, (c) your employers' will continue to match certain percentages of your deferrals at the rates they are now, (d) the balances will grow by estimated rates of return, (e) you will not take any premature or disallowed withdrawals or loans against the balances, and (f) you will not lose or quit your current jobs.

A final assumption is that you will be reinvesting all dividends and gains into those stocks. This is called a DRIP<sup>28</sup> program.

You currently have the following retirement savings. James has \$366,600 in his 401(k) and \$65,000 in his Roth. Stephanie has \$61,110 in her 401(k) and \$76,500 in a traditional IRA, for a total of \$137,600.

If you take these balances, grow them up at your ten-year historical average return, and account for social security benefits being available and taken at 65, here is what your retirement savings look like.

**Table 1. Retiring at 65, Full Social Security, with Ten Year Historical Rates**

	Retire at <b>65</b> , current allocations, with SS, <b>current rates of return</b>
Needed at Time of Retirement	\$10,002,060.18
Retirement Assets	\$10,168,082.92
Taxable Account	\$2,985,501.17
Social Security Assets	\$3,398,860.28
Credit/Deficit	Credit: \$6,550,394.190
Will you be able to fully fund your retirement?	YES
What is the problem?	This is based on unrealistic historic rates of return that are very unlikely to persist

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<sup>28</sup> "DRIP" means Dividend Reinvestment Program. It is a program that automatically reinvests dividends and gains into the security that rendered those dividends or gains.

The numbers set forth in Table 1 are rate estimates based upon your **current** parameters and ten-year rolling (historical) averages. In our opinion, these rate estimates are far too high to be used to accurately predict the **future** performance of your retirement portfolio. The historical rates we used are **based upon one of the best ten-year market periods in history**. You cannot rely upon historical rates to forecast future returns generally, and it would be inaccurate to use the last ten years, some of the best ever, to forecast the next twenty-one years. We have adjusted accordingly.

Further, the projections in Table 1 are based on your current Moderately Aggressive and Aggressive Investment allocations. We have proposed some reallocations because you both have expressed that you would like to be more Moderate in your risk, your returns will decrease along with our reallocation of your assets. Please refer to the Investments Chapter to see how we propose to change your allocations and the reasons thereunder.

The right-hand column sets forth what would happen if you took social security at 65, your intended retirement age, with all other parameters remaining the same (including the too optimistic rates of return). Under this plan, retiring at the age 65 and taking social security then, **you would have more than \$6.55m remaining when your plan ends.**

## **5. Other retirement assets.**

**Taxable Account.** You also have a taxable account currently worth \$81,000. This can be an asset for retirement or for pre-retirement. We have defined it as a retirement asset.

## **6. Other non-retirement assets.**

Inherited IRA (Billy). The IRA James inherited from Billy was Billy's retirement asset. It is the fruit of Billy's life's work and an important legacy to your family. We are not treating it as James's retirement asset. We will explain this further in the charity chapter. For the purposes of this analysis, we consider it a non-retirement asset.

NUCO annuity.<sup>29</sup> We did not consider Stephanie's NUCO annuity a retirement asset for purposes of our analysis. As you know, it could be used for retirement funding, but under our calculations is likely to be unnecessary to use to meet your retirement goals and wishes.

## **Options**

As you will see in the Investments Chapter, we recommend reallocations to your portfolios. Those reallocated portfolios themselves have historical returns. We did not feel comfortable

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<sup>29</sup> An annuity is an income stream of fixed payments over a certain time period. Your annuity is a "fixed" annuity, which means it guarantees a specific rate of return.

using those historical returns, because, as we have explained, they are based upon one of the best ten-year market runs in history (unlikely to repeat).

**New Rate Chosen.** We obtained the ten-year historical rolling averages for your accounts. We believe these historical rates to be too high to use to predict future returns for the reasons mentioned. To adjust to a more accurate rate, we reduced each rate by 2%. We used that new “reduced by 2%” rate to calculate the returns.

**Table 2. Rates Based on Adjusted Ten Year Rolling Historical Averages**

	<b>Ten Year Rolling Average Current Allocation</b>	<b>New Rate Based on New Allocation</b>
<b>James’s 401(k)</b>	11.57	12.55% - 2% = <b>10.55%</b>
<b>James’s Roth IRA</b>	3.75	10.94% - 2% = <b>8.94%</b>
<b>Stephanie’s 401(k)</b>	22.44	13.66%-2% = <b>11.66%</b>
<b>Stephanie’s Traditional</b>	6.04	12.28%-2% = <b>10.28%</b>

Table 3 below sets forth Options 1, 2, and 3 for retiring at age 65.

**Table 3. Retiring at 65**

	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
	Retire at 65, <b>Full SS</b> , with new allocated rates	Retire at 65, <b>No SS</b> , with new allocated rates	Retire at 65, <b>50% SS</b> , with new allocated rates
<b>Total Needed at Time of Retirement</b>	\$10,002,060.18	\$10,002,060.18	\$10,002,060.18
<b>Value of SS benefit</b>	\$3,398,860.29	0	\$1,229,078.72
<b>Retirement Assets at the time of Retirement</b>	\$6,443,512.02	\$6,443,512.02	\$6,443,512.02
<b>Taxable Account Assets at the Time of Retirement</b>	\$2,985,501.17	\$2,985,501.17	\$2,985,501.17

Credit/Deficit	\$2,825,813.29	(\$575,046.99)	\$656,031.72
Will you be able to fully fund your retirement?	YES	NO	YES

You will see that once again you will have a surplus in retirement unless there is NO social security benefit available to you.

To state it another way: you are most likely to reach your retirement goals, and have everything you want covered, **unless social security is completely eliminated.**

We know that you are not sanguine about the existence of social security when you retire. Social security is an enormously popular, and therefore politically sacrosanct, program. Because it helps nearly everyone, it is considered a political “third rail” that is not likely to be radically overhauled. Government benefit programs, once instituted, rarely go away completely.

From an actuarial standpoint, we know that you have heard the gloomy predictions regarding social securities continued viability. Most of the time, those sounding an “alarm” about social security are seeking to sell you a solution to a non-existent problem. We understand that little changes or “tweaks” to the system, like raising the FRA (which is what happened to you already!), will keep the system viable. One little change in rates, PIA amounts, or FRA can ensure the viability of the social security system and politically, we believe those changes will be made when needed.

We believe that social security will be in existence at the time of your retirement and that there will be benefits for you, but that it may exist in some form different from today. In our Options section, we have set forth some retirement scenarios that involve: full social security, no social security and fifty percent social security. You will see that you are on track to meet or exceed your retirement monetary goals **in all but one instance: if social security is completely eliminated** and not replaced by any similar program. (Which in our view, is extremely unlikely to happen).

Assuming that social security is eliminated, and that you will receive no PIA, you can still save the full amount required for retirement under our calculations by saving an extra \$858.00 a month for the next twenty years at 9% APR.

## Alternatives

All the calculations and projections set forth are based upon parameters given to us by you. For example, you have stated that you wish to retire at 65 years old and that you wish to have an eighty-five (85%) percent wage replacement ratio. As alternatives, you can adjust any of these parameters.

**Alternative 1.** Retire after age 65. Retiring sometime after age 65 would increase your retirement savings in at least five ways. First, you would work longer and save longer. Second, your employers would give you more money in the form of matches, because they would be matching longer, and matching on higher salary amounts/percentages. Third, it would raise the amount of your Social Security benefits. Fourth, it would lessen the number of years in retirement (it would lessen the years with the lowered income). Fifth, it would give the money more time to grow resulting in a larger pot at the time of retirement.

**Alternative 2.** Lower your wage replacement ratio. Right now, you wish to have eighty five percent (85%) of your pre-retirement income in retirement. To state it another way, with respect to your income: you want to have 85 cents in retirement for every dollar you had in pre-retirement combined pre-tax income. As an alternative, you could lower this eighty-five percent ratio to say seventy-five. That would mean you have to save less for retirement; however, it also would mean you would have less to spend in retirement.

**Alternative 3.** Tax Deferred Accounts to Roth Account Conversions. Around age fifty-five (55) or so, we may want to consider converting a portion of your tax deferred accounts into tax free savings. We do this by “converting” a portion of James’s 401(k), paying the tax now, and converting that money to tax free within James’s Roth IRA. The potential advantages are many. There are at least three limitations to it. First, if your tax bracket in retirement is going to be the same as it is at the time of the conversion, then there is no net tax savings. Second, if you are going to be bumped into a higher tax bracket because of the converted amounts, it may not be worth it. Third, you cannot access or use any of the converted amounts for five years after the conversion, so we must be careful not to convert any amounts that you will need in the five years thereafter, or else you will have to pay stiff penalties.

## Traveling

You wanted us to consider traveling with the children now before they reach their teenage years. Amelia is already thirteen, which in our minds, means you want to do this soon. You have done well saving. It is not going to destroy the budget or our projections to go on vacation next Summer (2024). We know that you just started with Anderson, but your seniority is grandfathered in, so taking a vacation now isn’t out of the ordinary. Maybe fund it with excess cash flow?

One way to do it is to set aside the \$2336.64 distribution that you are taking from the Inherited IRA (Billy’s). Take one distribution now and one in the Spring and set that \$4672 aside in a dedicated account marked “Vacation Summer 2024.” That is an amazing legacy from Billy: being able to spend time strengthening ties with your family. You also have thousands of extra dollars of cash flow from our recommendations that you can use for this vacation. Please see the Cash Flow chapter for more details.

## **Medicare**

Medicare is a government sponsored health care program for those 65 and older. There are three parts to Medicare: Parts A-D. Part A covers hospital insurance; Part B covers medical insurance. You are required to sign up for Parts A and B at age 65 or you risk gaps in your coverage. This Initial Enrollment Period lasts seven months, starting 3 months before you turn 65 and ending 3 months after you turn 65. If you miss this 7-month enrollment period, you may have to wait to sign up and pay a monthly late enrollment penalty for as long as you have Part B coverage. You may also have to pay a penalty on the Part A premium. If you enroll no later than the month before you turn 65, the coverage starts the month you turn 65. Once you sign up for Part A, there are certain times you can sign up for Part C (Medicare Advantage Plan) Part D (Medicare Drug Plan).

## **A Note About AUM**

As is set forth in our engagement letter, we will be obtaining our quarterly AUM fee from Stephanie's Traditional IRA. The reason we are doing this is because it is the most tax advantaged way to pay us. It is not considered a premature withdrawal from the IRA if it is paid this way.

## **Withdrawal of funds**

Once you reach retirement the goal is to have money in three different accounts or "buckets": one tax free account, one tax deferred account and one taxable account.

In general, you want to draw down the accounts in the following order.

You want to draw down the tax free first. Hopefully, we can reallocate municipal bonds and securities paying qualified dividends into your taxable account as well, to make that another tax-free income stream. We do this reallocation from 55-65 years old. In a perfect world, your tax-free earnings could sustain you until your Required Minimum Distribution (RMD) dates where you are forced to start withdrawing from your tax deferred accounts(s).

Your RMD age is 75 years old. That was just raised from 72 by the Secure Act 2.0. Your RMD age could be raised to even higher, and it is reasonable to expect it will, but for now we assumed an RMD age of 75.

You would then draw down your tax deferred account to the extent that you are required. This amounts to 3% to 3.5% of total account balance per year. If you cannot meet all your expenses with your RMD's, then you will be forced to begin withdrawing from your taxable account.

Your taxable account should be drawn down last. Ideally, you would not have to touch these funds until after all your tax free and tax deferred accounts have been fully withdrawn. This will



save you significant money on taxes and will also allow your taxable account to grow from the date of retirement until you actually need it (and move gains from short term to long term over time).

The allocations we recommend are merely this coming year's suggested allocations. We will revisit the investment and allocation decisions yearly and when significant macroeconomic events and firm specific events make it prudent to do so.

As we move toward retirement, around age 55 or so, we would like to start re-allocating. The decisions will be made at that time, but there are some general parameters we would like you to start considering.

First, we would like to start allocating qualified dividend stocks and municipal bonds around age 55, such that when you get to 65 and retire, you can have a tax-free income. The goal is for these assets to yield sufficient income that you can pay your expenses until at least age 70 (when you can get full social security with no reduction in benefit), or 73 (when you must begin taking RMDs).

Next, from ages 65 to 70 (Full retirement age under social security for those born in 1978), we may want to convert small amounts of 401(k) money, pay the tax on it, and let it grow tax free. The limitations on this are (a) any converted amounts cannot be withdrawn for five years without significant penalties, (b) it only works if you are going to be in a lower tax bracket in retirement than you are at the time of conversion, and (c) the converted amounts cannot bump you into a higher tax bracket or else the conversion benefits are lost or reduced.

Next at age 70, we would recommend that you take your social security benefits. When you reach 70, the age limit may have been extended even further.

Finally, at age 75, you must start taking your RMDs. The goal is for the RMDs to cover your expenses. If your RMD exceeds your expenses in retirement, you are going to end up getting double taxed on the excess amounts (because our recommendation would be to reinvest those excess amounts into a taxable account)

## Recommendations

1. We recommend you follow Option 1. Retire at 65, take full Social Security at that time/age. Enroll in Parts A and B of Medicare when eligible.
2. Reallocate<sup>30</sup> your retirement accounts. Current account allocations are inconsistent with risk tolerance, pre-retirement investing desires, and retirement goals.

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<sup>30</sup> Our proposed reallocations are set forth in detail in the Investments Chapter.

3. Continue to defer salaries into your 401(k)s, continue to take the matches from your employers and continue to save without taking any premature withdrawals from your retirement accounts. Following the reallocation, save/defer based on the reallocations, not the current allocations. We have also noticed that Stephanie is not taking advantage of her 401(k) employee match. We recommend she increases her deferral amount by 2% so her employer can match it.
4. Do not take premature distributions<sup>31</sup> from retirement accounts.
5. Go on vacation with the children next Summer (2024), you can afford it. We recommend using portions of the distributions from the Inherited IRA.

## Implementation

**Recommendation 1.** Retire at 65, take full social security at that time/age. Enroll in Medicare Parts A and B at least one month before turning 65.

<b>Who?</b>	James and Stephanie
<b>What?</b>	Retire at 65
<b>Where?</b>	Work
<b>When?</b>	After September 1, 2043
<b>Why?</b>	You can afford to do it; you wish to retire at 65
<b>How?</b>	Continue to work until age 65; sign up for Medicare at <a href="https://www.medicare.gov/basics/get-started-with-medicare/sign-up/ready-to-sign-up-for-part-a-part-b">https://www.medicare.gov/basics/get-started-with-medicare/sign-up/ready-to-sign-up-for-part-a-part-b</a>
<b>How much?</b>	No fees

**Recommendation 2.** We have recommended a reallocation of your various portfolios, including your retirement assets. **There will be two separate allocation actions, one where you contact each of your 401(k) representatives and then one for the IRAs which we will take perform,** once you have ported these assets over to us as custodian (Schwab) through an ACAT transfer.

<b>Who?</b>	Mountain Sunset Financial
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<sup>31</sup> "Premature distributions" from a retirement account are those that are taken before you turn age 59.5. These withdrawals incur a ten percent penalty and taxes are due.

<b>What?</b>	Reallocate the various portfolios
<b>Where?</b>	Within the retirement accounts; have them ported over to our custodian (Schwab) through the ACAT system to avoid taxation event
<b>When?</b>	By June 15, 2023
<b>Why?</b>	Current account allocations are inconsistent with risk tolerance, pre-retirement investing desires, and retirement goals
<b>How?</b>	We can accomplish this for you for the IRAs as we soon become custodians of these accounts through an ACAT transfer; for the 401(k)s, you must accomplish these reallocations and we will assist you in doing that.
<b>How much?</b>	No fees to reallocate.

**Recommendation 3.** We have recommended that you continue to defer salary into your 401(k)s, continue to take the matches from your employer and continue to save. Your contributions going forward will be based on the new proposed allocations, not the current ones.

<b>Who?</b>	You both
<b>What?</b>	Continue to defer; take the matches; defer into the reallocated accounts in the reallocated amounts and percentages
<b>Where?</b>	At work.
<b>When?</b>	By June 15, 2023
<b>Why?</b>	Make sure Anderson HR implements the new deferral parameters for James and her company for Stephanie
<b>How?</b>	You each must take this up with your respective HR departments
<b>How much?</b>	No fees.

**Recommendation 4.** Do not take premature distributions (under age 59.5) from retirement accounts.

<b>Who?</b>	You both
<b>What?</b>	Do not touch those retirement accounts until you are at least 59.5
<b>Where?</b>	Personally

<b>When?</b>	<b>No earlier than March 1, 2037</b>
<b>Why?</b>	Severe penalties and taxes imposed if you do
<b>How?</b>	Do nothing; refrain from taking distributions until
<b>How much?</b>	No fees

**Recommendation 5.** We recommend you go on vacation in summer 2024 with the children and Elizabeth.

<b>Who?</b>	James, Stephanie, Amelia, Ben, Elizabeth
<b>What?</b>	Go on vacation in Summer of 2024
<b>Where?</b>	Anywhere you like
<b>When?</b>	June 1, 2024
<b>Why?</b>	Time is precious. The children are only getting older and time is passing. You have the money and only live once.
<b>How?</b>	Discretionary cash flow, the withdrawals from the Inherited IRA
<b>How much?</b>	Your choice

## Monitoring

Some monitoring items that we want to make sure that we stay on top of are:

1. If you need to withdraw from your taxable account for any expenses, then we would have to reallocate your taxable account.
2. We would like you to check in with us regarding the 401(k) reallocations, how they are going and if you need any assistance.
3. Please let us know if you have any difficulty implementing the deferral percentages with your respective HR departments.
4. We will continue to monitor macroeconomic conditions that could affect returns in your retirement accounts and portfolios.
5. We will continue to monitor any fund specific events or conditions that could affect returns in your retirement accounts and portfolios.
6. We will monitor policy and rate changes including any proposed changes in Social Security parameters that will affect you.
7. We would really like to hear your vacation plans and hear about your vacation when you return.

## **Please Read This Chapter Together with the Investments Chapter**

There are multiple chapters in this Plan. This chapter deals with Retirement funding. Part of retirement funding is potentially reallocating assets (investments) in your various accounts. In this Chapter (Retirement Planning), we set forth the reallocations themselves and how they get you to your Retirement funding goals. In the Investments chapter, we discuss at length what reallocations we recommend, the reasons why, and the expected outcomes therefrom.

Please also be aware that we are not attorneys and we have not provided legal advice, or legal tax advice. We will help you engage attorneys to help you in these matters and will work with those attorneys thereafter to make sure you get the best possible plan.

# Investment Planning

<b>Cash Flow and Net Worth Analysis</b>
<b>Life Insurance Planning</b>
<b>Property and Casualty Insurance Planning</b>
<b>Retirement Planning</b>
<b>Investment Planning</b>
<b>Debt Planning</b>
<b>Education Planning</b>
<b>Employee Benefits Planning</b>
<b>Charity Planning</b>
<b>Estate Planning</b>
<b>Tax Planning</b>
<b>Implementation and Monitoring</b>

## Introduction

In this chapter, we will discuss all your investment accounts and suggest ways to improve current returns without taking excessive risk. We also want to thank you for taking the time to complete your risk tolerance questionnaires. This has helped us construct the right allocation for each of your portfolios. James, we understand that you are feeling apprehensive about your investments, but we are confident that you will be rewarded for any risk you take. You have granted us discretionary authority over your investment accounts. This means we will trade your investments how we see fit.

## Assumptions:

1. All the funds sold through the taxable account are treated as long-term capital gains.
2. James is currently not contributing to his Roth IRA.
3. We are assuming that a moderately aggressive portfolio consists of 70% equities and 30% bonds.
4. We are assuming that a moderate portfolio consists of 60% equities and 40% bonds

## Current Situation

### Allocations

#### A. James's current retirement assets are as follows:

Description	Current Value	Current Allocation %
<b>James' 401(k)</b>		
Royce Opportunity, RYPNX	\$82,000	22.37%
CGM Realty, CGMRX	\$68,400	18.66%
US Global Investors Gold and Precious Metals, USERX	\$69,600	18.99%
Dodge and Cox, DODGX	\$52,800	14.40%
Fidelity International Discovery, FIGRX	\$93,800	25.59%
<b>James' Roth IRA</b>		
Harbor Bond, HABDX	\$65,000	100%

James's 401(k) current allocation can be categorized as **aggressive**. James's IRA can be categorized as **conservative** with no diversification<sup>32</sup>. James has expressed that pre-retirement, he desires to be **moderate** in his retirement portfolio. A comparison between aggressive and moderate portfolios is expressed here:

Aggressive	80% equity	20% fixed income
Moderately Aggressive	70% equity	30% fixed income
Moderate	60% equity	40% fixed income
Moderately Conservative	50% equity	50% fixed income

You will also find hedge mutual funds within your accounts. This includes real estate (CGMRX) and gold (USERX). Although this is considered an alternative investment, we have categorized it as equity for simplistic purposes. We will discuss re-balancing James' portfolio to align with his risk tolerance.

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<sup>32</sup> Diversification: the process of allocating capital in a way that reduces the exposure to any one particular asset or risk

You see that we did not include the IRA inherited from James' father (Billy) as a retirement asset. It was Billy's retirement asset; because of tax rules, it is an asset that must be drawn down within ten years of Billy's passing. Disposition of Billy's inherited IRA is discussed in the charitable and tax chapters of your Plan.

**B. Stephanie's current retirement assets are as follows:**

Description	Current Value	Current Allocation %
<b>Stephanie's 401(k)</b>		
T. Rowe Price New Horizons, PRNHX	\$61,100	100%
<b>Stephanie's Traditional IRA (rollover)</b>		
Vanguard GNMA, VFII	\$44,500	58.16%
Fidelity International Discovery, FIGRX	\$32,000	41.83%
<b>NUCO Fixed Annuity</b>	\$145,000	100%

Currently, Stephanie's 401(k) can be categorized as **aggressive**. Stephanie has expressed that she would like a moderate risk portfolio pre-retirement, unless there is a return that is worth the risk of bumping her into a moderately aggressive portfolio. Stephanie's current allocation for her Traditional IRA can be categorized as **moderately conservative**.

**C. Current taxable account**

Ticker	Current Value	Annual Contribution	Weights
DODGX- large value			0.00%
TWCGX- large growth	\$14,000	\$2,800	17.28%
HRMDX- mid cap value	\$21,000	\$4,200	25.93%
FMCSX- mid cap blend	\$12,000	\$2,400	14.81%
RYPNX- small value	\$6,000	\$1,200	7.41%
PRNHX- mid cap growth	\$15,000	\$3,000	18.52%
NOSGX- small cap value		\$0	0.00%
TGVOX- mid cap value		\$0	0.00%
FIGRX- foreign large growth		\$0	0.00%
VQNPX- large blend div		\$0	0.00%
CGMRX- real estate		\$0	0.00%



USERX- equity gold		\$0	0.00%
VFIIX- MBS	\$13,000	\$2,600	16.05%
HABDX- intermediate core		\$0	0.00%
VWESX- LT bond		\$0	0.00%
WHOSX- Government Bond		\$0	0.00%
PRHYX- corporate bond		\$0	0.00%
TWUSX- short term gov bond		\$0	0.00%
VMRXX- ST gov, Money market		\$0	0.00%
<b>TOTAL</b>	<b>\$81,000</b>	<b>\$16,200</b>	<b>100.00%</b>

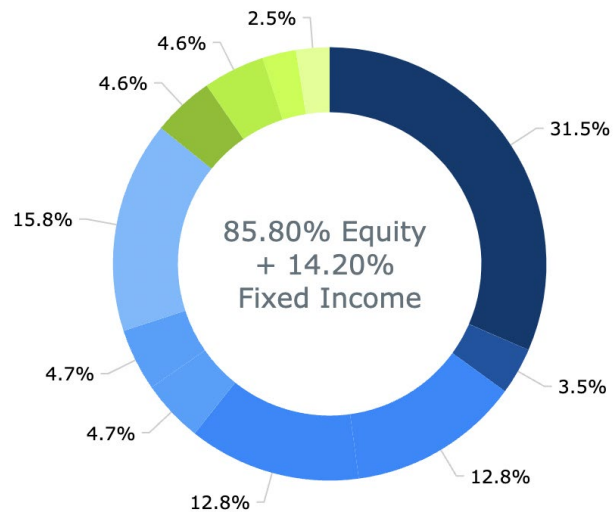
Overall, this account is weighted heavily in equity. We would like to be a little more conservative since this is an account you may need to pull from before retirement. We are going to recommend you add more fixed income to your portfolio. This will also match your risk tolerance better.

#### **D. Current 529 college savings accounts**

<b>Description</b>	<b>Current Value</b>	<b>Owner</b>	<b>Beneficiary</b>
VA 529- ESG Core Equity	\$80,300	Stephanie	Amelia
VA 529- Active Aggressive Portfolio	\$65,600	Stephanie	Ben

VA-529 ESG Core Equity is an actively managed fund invested in 100% equity. This is extremely risky for Amelia's 529 college savings plan because she is nearing the start of college. It is important for this portfolio to be diversified in the event of a down market. Therefore, we need to reallocate her 529 college savings plan by incorporating fixed income.

On the other hand, Ben's 529 college savings plan has some diversification. However, investing in an 86% equity portfolio at his age is very risky. See the graph below for Ben's 529 current investment allocation:



The stock market has done extremely well over the last 10 years. In fact, the last 10 years have been some of the best the stock market has ever seen. The major stock market crash of 2008 is no longer included in the 10-year historical return calculation, so there is no drawdown<sup>33</sup> to consider. We want to remind you that historical performance does not indicate future results. The stock market fluctuates. The stock market rises and falls. Nevertheless, we are confident that you have enough time before retirement to take risk and see reward.

After calculating returns based on a historical 10-year average, we are estimating that the returns will be about 2% lower than this stated return. This will help you “always be prepared” with future market fluctuations.

Also, we want to clarify that any reallocation within your tax-deferred accounts (James’s 401(k), James’s Roth IRA, Stephanie’s 401(k), and Stephanie’s IRA) will trigger no tax consequences. A tax consequence does not occur until money comes out of the account at retirement. A tax-deferred account means that all investment earnings accumulate tax free until the money is taken out of the account. Reallocations within your taxable account will trigger a tax consequence. We will discuss this in Option 2.

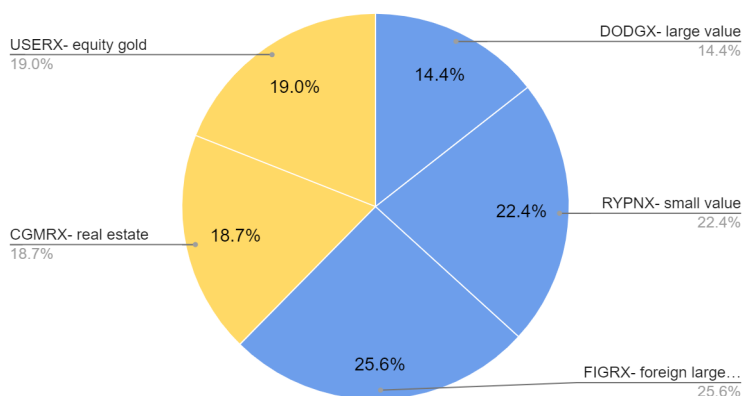
<sup>33</sup> Drawdown: is a peak-to-trough decline during a specific period for an investment, trading account, or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough.

## Option 1- Reallocate all Retirement Accounts

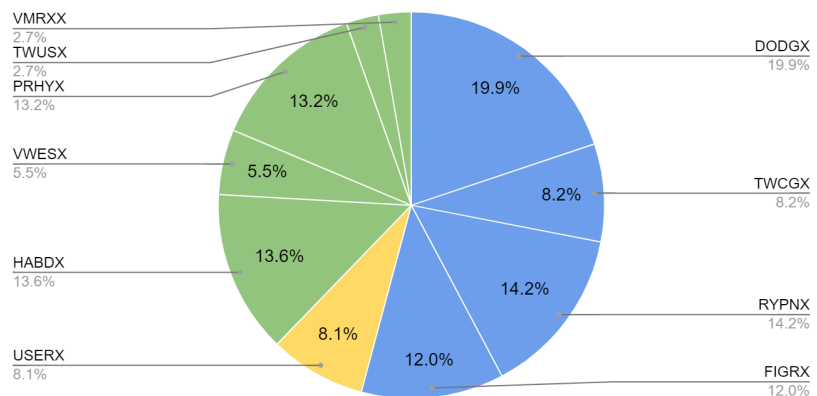
### A. Reallocation of James 401(k)

Ticker	Current Value	New allocation	Weights
DODGX- large value	\$52,800	\$20,000	19.86%
TWCGX- large growth		\$30,000	8.18%
HRMDX- mid cap value			0.00%
FMCSX- mid cap blend			0.00%
RYPNX- small value	\$82,000	-\$30,000	14.18%
PRNHX- mid cap growth			0.00%
NOSGX- small cap value			0.00%
TGVOX- mid cap value			0.00%
FIGRX- foreign large growth	\$93,800	-\$50,000	11.95%
VQNPX- large blend div			0.00%
CGMRX- real estate	\$68,400	-\$68,400	0.00%
USERX- equity gold	\$69,600	-\$40,000	8.07%
VFIIX- MBS			0.00%
HABDX- intermediate core		\$50,000	13.64%
VWESX- LT bond, corp		\$20,000	5.46%
WHOSX- Government Bond			0.00%
PRHYX- corporate bond		\$48,400	13.20%
TWUSX- short term gov bond		\$10,000	2.73%
VMRXX- ST gov, Money market		\$10,000	2.73%
<b>TOTAL</b>	<b>\$366,600</b>		<b>100.00%</b>

James 401k Current Allocation



James' 401k New Allocation



The blue slices in the pie chart represent the percentage of equities within the account. The yellow slices represent the percentage of hedges (part of total equities). Lastly, the green represents the fixed income percentages.

After reallocation, we added bond funds to diversify your account more. This is consistent with your risk tolerance and is considered a “moderate” investment strategy. Although the funds within this account will fluctuate, this is inevitable with investing. It is important to focus on the long term goal of investing, and we will not need this money until retirement.

10 year average	Standard Deviation	C.V.	Sharpe	Beta	R-squared	Alpha	Treynor	Risk Free Rate
10.79	10.02	.929	1.015	1.18	0.96	0.26	8.60	0.61

Using historical 10-year average returns, this reallocated portfolio will earn on average 10.79% per year. Remember, this return is relatively high. We would estimate that your account will earn closer to 8% per year.

The standard deviation of this portfolio measures how much investment returns deviate from the mean of the probability of investment returns. In other words, this tells you how “risky” the portfolio is. Although this number is relatively high, I want to remind you that these numbers are high because of how the stock market has been in the last 10 years. To put this in perspective, the standard deviation of the S&P 500 is about 15% long term. It is uncommon to receive a higher return for a lower standard deviation. As you will see in the rest of this chapter, we are getting returns that are higher than the standard deviations of the mutual funds and the overall portfolio. That metric is another way to spot that the previous 10-year average returns are inflated.

The covariance (C.V.) of the portfolio is 0.929. A positive covariance means that both variables tend to be high or low at the same time. The covariance tells us how much the stock moves in relation to the market.

The Sharpe ratio measures the risk-adjusted relative returns. The higher the Sharpe ratio, the better. This indicates the risk of your portfolio is being offset well enough by its return. Typically, anything above a 0.5 is considered “good”.

Beta compares a stock's historical volatility with a market index, such as the S&P 500. Portfolios with a beta greater than one tend to be riskier than their benchmark. The beta is 1.18 for the reallocation of James' 401(k), which aligns with our previously stated higher returns.

R-squared tells us how closely the performance of the portfolio can be attributed to the selected benchmark index. We prefer to use this measure because it tells us how our portfolio is mirroring the market. It is also a good indicator for risk and what measures of risk to use. If R-squared is greater than 0.70 then beta and the Treynor ratio are good measures of risk. If R-squared is less than 0.70 then the Sharpe ratio and standard deviation are good measures of risk.

Alpha is the return above the benchmark index. This means that if you have a positive alpha, your portfolio has returned a higher percentage than the market in the past.

The Treynor ratio tells us how much excess return was generated for each unit of risk taken on by a portfolio. This ratio refers to systematic risk<sup>34</sup>, or risk inevitable in the market. This ratio tells us what we should be compensated for given our level of risk, since diversification cannot remove this risk.

The risk-free rate tells us how much we should return with zero risk at all. Overall, Dodge and Cox Stock (DODGX) is a great mutual fund. We have allocated it to almost every account in your portfolio because of its Morningstar performance rating of five stars. The fund's turnover rate is 16% which is very low. This tells us how often you will pay taxes. The fund also has a manager tenure of 20 years and 2 months. This indicates that the manager is very knowledgeable, and the tenure usually aligns with the fund's future success. Given that this fund has a long tenure, it gives us confidence that the fund will do well in the future.

In general, mutual funds offer great diversification. These funds provide investors with exposure to many different investments all in the same place. Mutual funds are just a basket of stocks. They cover most major asset classes. Plus, they are professionally managed. This means that your money is constantly being watched by experts. Managers will do the research for you. They use this research to select securities and monitor the fund's performance.

Having many kinds of funds reduces risk in a portfolio and offers diversification. For example, small caps tend to be riskier than large caps, but including both in your portfolio helps reduce risk.

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<sup>34</sup> Systematic risk: is risk inherent to the entire market or market segment.

## Implementation – Reallocation of James’s 401(k)

<b>Who?</b>	James
<b>What?</b>	Reallocate
<b>Where?</b>	Within the 401(k)
<b>When?</b>	By June 15, 2023
<b>Why?</b>	James’ current 401(k) asset allocation is inconsistent with his risk tolerance and his pre-retirement investing desires
<b>How?</b>	Log into your retirement account and reallocate based on the above recommendations.
<b>How much?</b>	No fees to reallocate.

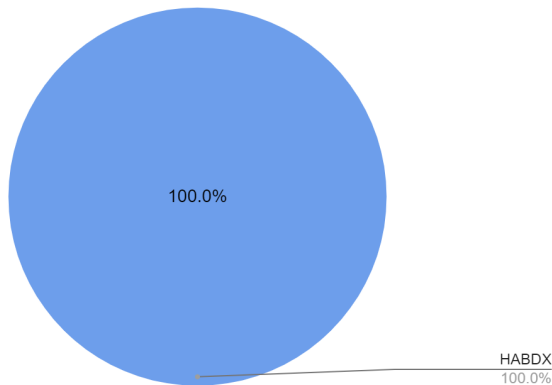
## B. Reallocation of James’s Roth IRA

<b>Ticker</b>	<b>Current Value</b>	<b>New allocation</b>	<b>Weights</b>
DODGX- large value		\$10,000	15.38%
TWCGX- large growth		\$10,000	15.38%
HRMDX- mid cap value		\$10,000	15.38%
FMCSX- mid cap blend		\$10,000	15.38%
RYPNX- small value			0.00%
PRNHX- mid cap growth			0.00%
NOSGX- small cap value			0.00%
TGVOX- mid cap value			0.00%
FIGRX- foreign large growth			0.00%
VQNPX- large blend div			0.00%
CGMRX- real estate			0.00%
USERX- equity gold			0.00%
VFIIX- MBS		\$10,000	15.38%
HABDX- intermediate core	\$65,000	-\$50,000	23.08%
VWESX- LT bond			0.00%
WHOSX- Government Bond			0.00%
PRHYX- corporate bond			0.00%

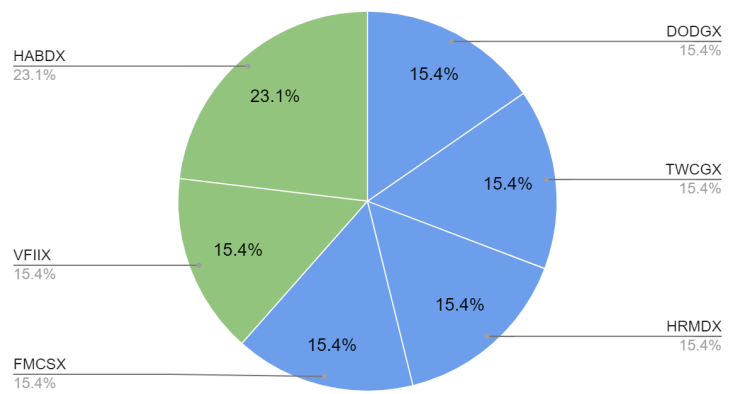
TWUSX- short term gov bond			0.00%
VMRXX- ST gov, Money market			0.00%
<b>TOTAL</b>	\$65,000		100.00%

With the reallocation of this portfolio is 62% equities and fixed income makes up the remaining 38%.

**James Roth IRA Current Allocation**



**James Roth IRA New Allocation**



As you can see above the dark blue color represents 61.6% of equities and the green slices represent the remaining 38.4% of fixed income. Your current allocation was invested in one fund. We changed it to have more diversification in the market. Your current allocation as you can see did not have you diversified which caused too much risk in your portfolio. Our new allocation better fits your risk tolerance.

10-year average	Standard Deviation	C.V.	Sharpe	Beta	R-squared	Alpha	Treynor	Risk Free Rate
10.94	7.99	.731	1.292	.91	.88	.83	11.36	0.61

Although the funds within this account will fluctuate, this is inevitable with investing. It is important to focus on the long-term goal of investing, and we will not need this money until retirement.

Using historical 10-year average returns, this reallocated portfolio will earn on average 10.94% per year. Remember, this return is relatively high. We would estimate that your account will earn closer to 8.94% per year.

The standard deviation tells you how “risky” the portfolio is. The standard deviation of this portfolio is 7.99. This is relatively low which means this account is less prone to volatility. As we stated above, it is uncommon to receive a higher return for a lower standard deviation.

The covariance (C.V.) of the portfolio is 0.731. A positive covariance means that both variables tend to be high or low at the same time. The covariance tells us how much the stock moves in relation to the market.

The Sharpe ratio measures the risk-adjusted relative returns. The higher the Sharpe ratio, the better. This indicates the risk of your portfolio is being offset well enough by its return. Typically, anything above a 0.5 is considered “good.”

Beta compares a stock’s historical volatility with a market index, such as the S&P 500. Portfolios with a beta greater than one tend to be riskier than their benchmark. The beta is .91 for the reallocation for James’ Roth IRA which aligns with the high returns.

The R-squared of this portfolio is .88 and this tells us how closely the performance of the portfolio can be attributed to the selected benchmark index.

Alpha is the return above the benchmark index. This means that if you have a positive alpha, your portfolio has returned a higher percentage than the market in the past.

The Treynor ratio tells us how much excess return was generated for each unit of risk taken on by a portfolio. This ratio refers to systematic risk, or risk inherent in the market. This ratio tells us what we should be compensated for given our level of risk, since diversification cannot remove this risk. To have a good Treynor ratio is relative to the beta of the portfolio or market that you are analyzing. For the new allocations of your portfolio, we have focused on the beta and Treynor ratio to measure because we classify the portfolios as well diversified. With a well-diversified portfolio, it is better to use beta and Treynor as measures.



The risk-free rate tells us how much we should return with zero risk at all.

### Implementation - James's Roth IRA

<b>Who?</b>	James
<b>What?</b>	Reallocate
<b>Where?</b>	Roth IRA
<b>When?</b>	By June 15, 2023
<b>Why?</b>	James's current Roth IRA asset allocation is inconsistent with his risk tolerance and his pre-retirement investing desires
<b>How?</b>	We will initiate the transfer by submitting a Transfer Information (TI) record, also known as a TIF (Transfer Initiation Form) to ACATS. Almost all transfers are completed within 10 business days. We will waive this fee for you. Then we will be able to make these trades for you.
<b>How much?</b>	This will cost you \$0.

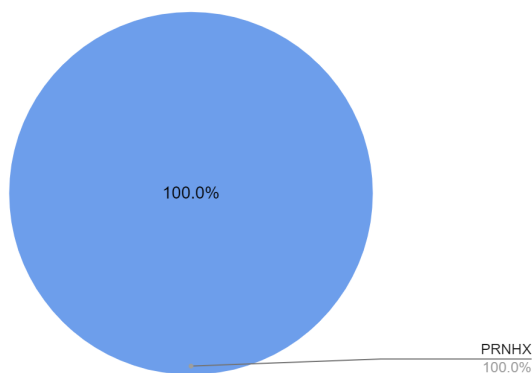
### C. Reallocation of Stephanie's 401(k)

<b>Ticker</b>	<b>Current Value</b>	<b>New allocation</b>	<b>Weights</b>
DODGX- large value		\$10,000	16.37%
TWCGX- large growth		\$10,000	16.37%
HRMDX- mid cap value			0.00%
FMCSX- mid cap blend			0.00%
RYPNX- small value			0.00%
PRNHX- mid cap growth	\$61,100	-\$50,000	18.17%
NOSGX- small cap value			0.00%
TGVOX- mid cap value			0.00%
FIGRX- foreign large growth		\$5,000	8.18%
VQNPX- large blend div			0.00%
CGMRX- real estate			0.00%
USERX- equity gold			0.00%
VFIIX- MBS			0.00%
HABDX- intermediate core			0.00%

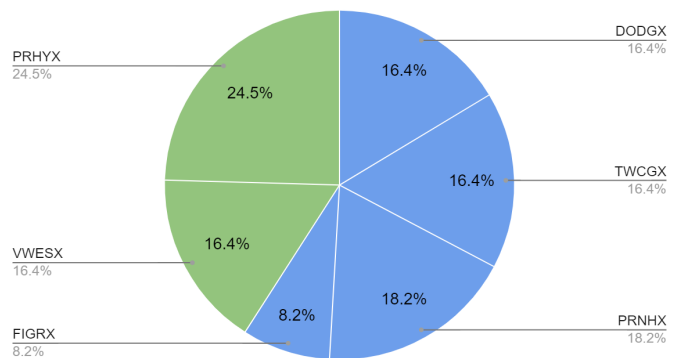
VWESX- LT bond		\$10,000	16.37%
WHOSX- Government Bond			0.00%
PRHYX- corporate bond		\$15,000	24.55%
TWUSX- short term gov bond			0.00%
VMRXX- ST gov, Money market			0.00%
<b>TOTAL</b>	\$61,100		100.00%

Stephanie's 401(k) reallocation gives her 59.1% in equities and 40.9% in fixed income. Although this would almost be considered a "moderate" portfolio, we know that Stephanie can handle this risk. Plus, she will not be withdrawing from her 401(k) for another 20 years, so she has time to take this risk.

**Stephanie's 401k Current Allocation**



**Stephanie's 401k New Allocation**



As you can see above, we have reallocated to include more bond funds into your new portfolio. Above the blue slices represent equities and the green slices represent fixed income. In this situation we would overall say your portfolio is around 60% equities and 40% fixed income.

Our goal was to choose assets that have a standard deviation in a combined portfolio that is less than the standard of the individual fund. For example, before reallocation, Stephanie's 401(k) consisted of PRNHX. PRNHX has a standard deviation of 18.35. The standard deviation of the new, reallocated portfolio is 10.14.

10 year average	Standard Deviation	C.V.	Sharpe	Beta	R-squared	Alpha	Treynor	Risk Free
-----------------	--------------------	------	--------	------	-----------	-------	---------	-----------

								Rate
13.58	10.14	.747	1.279	1.10	0.99	1.32	11.81	0.61

Although the funds within this account will fluctuate, this is inevitable with investing. It is important to focus on the long-term goal of investing, and we will not need this money until retirement.

Using historical 10-year average returns, this reallocated portfolio will earn on average 13.58% per year. Remember, this historical 10-year average return is relatively high. We would guess that your portfolio will more likely earn 10% per year.

The standard deviation of this portfolio measures how much investment returns deviate from the mean of the probability of investment returns. In other words, this tells you how “risky” the portfolio is.

The covariance (C.V.) of the portfolio is 0.747. A positive covariance means that both variables tend to be high or low at the same time. The covariance tells us how much the stock moves in relation to the market.

The Sharpe ratio measures the risk-adjusted relative returns. The higher the Sharpe ratio, the better. This indicates the risk of your portfolio is being offset well enough by its return. Typically, anything above a 0.5 is considered “good”.

Beta compares a stock’s historical volatility with a market index, such as the S&P 500. Portfolios with a beta greater than one tend to be riskier than their benchmark. The beta is 1.10 for Stephanie’s 401(k).

R-squared tells us how closely the performance of the portfolio can be attributed to the selected benchmark index. We prefer to use this measure because it tells us how our portfolio is mirroring the market. It is also a good indicator for risk and what measures of risk to use.

Alpha is the return above the benchmark index. This means that if you have a positive alpha, your portfolio has returned a higher percentage than the market in the past.

The Treynor ratio tells us how much excess return was generated for each unit of risk taken on by a portfolio. This ratio refers to systematic risk, or risk inherent in the market. This ratio tells us

what we should be compensated for given our level of risk, since diversification cannot remove this risk.

The risk-free rate tells us how much we should return with zero risk at all.

#### Implementation - Stephanie's 401(k)

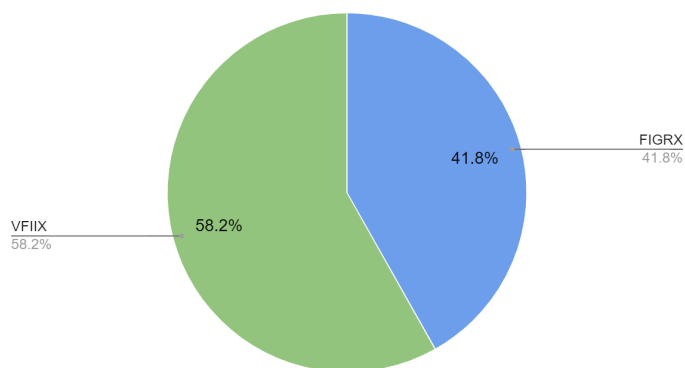
<b>Who?</b>	Stephanie
<b>What?</b>	Reallocate
<b>Where?</b>	Within the 401(k)
<b>When?</b>	By June 15, 2023
<b>Why?</b>	Stephanie's current 401(k) asset allocation is inconsistent with her risk tolerance and her pre-retirement investing desires
<b>How?</b>	Log into your retirement account and reallocate based on the above recommendations.
<b>How much?</b>	This will cost you \$0.

#### D. Reallocation of Stephanie's Traditional IRA

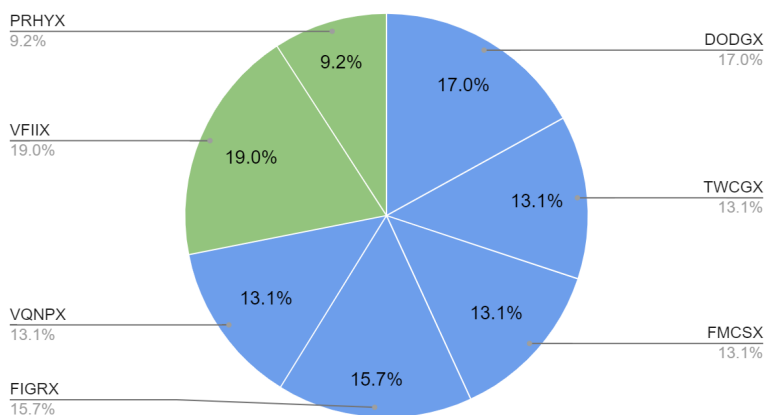
<b>Ticker</b>	<b>Current Value</b>	<b>New allocation</b>	<b>Weights</b>
DODGX- large value		\$13,000	16.99%
TWCGX- large growth		\$10,000	13.07%
HRMDX- mid cap value			0.00%
FMCSX- mid cap blend		\$10,000	13.07%
RYPNX- small value			0.00%
PRNHX- mid cap growth			0.00%
NOSGX- small cap value			0.00%
TGVOX- mid cap value			0.00%
FIGRX- foreign large growth	\$32,000	-\$20,000	15.69%
VQNPX- large blend div		\$10,000	13.07%
CGMRX- real estate			0.00%

Ticker	Current Value	New allocation	Weights
DODGX- large value		\$13,000	16.99%
TWCGX- large growth		\$10,000	13.07%
HRMDX- mid cap value			0.00%
FMCSX- mid cap blend		\$10,000	13.07%
USERX- equity gold			0.00%
VFIIX- MBS	\$44,500	-\$30,000	18.95%
HABDX- intermediate core			0.00%
VWESX- LT bond			0.00%
WHOSX- Government Bond			0.00%
PRHYX- corporate bond		\$7,000	9.15%
TWUSX- short term gov bond			0.00%
VMRXX- ST gov, Money market			0.00%
<b>TOTAL</b>	<b>\$76,500</b>		<b>100.00%</b>

Stephanie's Traditional IRA Current Allocation



Stephanie's Traditional IRA New Allocation



This account allocation is 72% equities and 28% bonds. We understand that this is considered a riskier portfolio compared to your other investments. Since Stephanie expressed that she is willing to take on more risk for a justified return we believe this will be the most beneficial allocation. This gives us a higher return with a relatively low standard deviation. As always, when watching the markets, we will monitor and decide if the returns are actually worth the risk for this portfolio.

<b>10 year average</b>	<b>Standard Deviation</b>	<b>C.V.</b>	<b>Sharpe</b>	<b>Beta</b>	<b>R-squared</b>	<b>Alpha</b>	<b>Treynor</b>	<b>Risk Free Rate</b>
12.28	9.75	0.794	1.197	1.01	0.96	0.21	11.52	0.61

Although the funds within this account will fluctuate, this is inevitable with investing. It is important to focus on the long-term goal of investing, and we will not need this money until retirement.

Using historical 10-year average returns, this reallocated portfolio will earn on average 12.28% per year. This return is based on high historical data. Therefore, we would estimate that you will earn 10% per year.

The standard deviation of this portfolio measures how much investment returns deviate from the mean of the probability of investment returns. In other words, this tells you how “risky” the portfolio is. The standard deviation of this account is 9.75. This indicates a low level of volatility.

The covariance (C.V.) of the portfolio is 0.794. A positive covariance means that both variables tend to be high or low at the same time. The covariance tells us how much the stock moves in relation to the market.

The Sharpe ratio measures the risk-adjusted relative returns. The higher the Sharpe ratio, the better. This indicates the risk of your portfolio is being offset well enough by its return. Typically, anything above a 0.5 is considered “good”.

Beta compares a stock’s historical volatility with a market index, such as the S&P 500. Portfolios with a beta greater than one tend to be riskier than their benchmark. The beta is 1.01 for Stephanie’s reallocated Traditional IRA.

R-squared tells us how closely the performance of the portfolio can be attributed to the selected benchmark index. We prefer to use this measure because it tells us how our portfolio is mirroring the market. It is also a good indicator for risk and what measures of risk to use.

Alpha is the return above the benchmark index. This means that if you have a positive alpha, your portfolio has returned a higher percentage than the market in the past.

The Treynor ratio tells us how much excess return was generated for each unit of risk taken on by a portfolio. This ratio refers to systematic risk, or risk inherent in the market. This ratio tells us what we should be compensated for given our level of risk, since diversification cannot remove this risk.

The risk-free rate tells us how much we should return with zero risk at all.

### Implementation - Stephanie's IRA

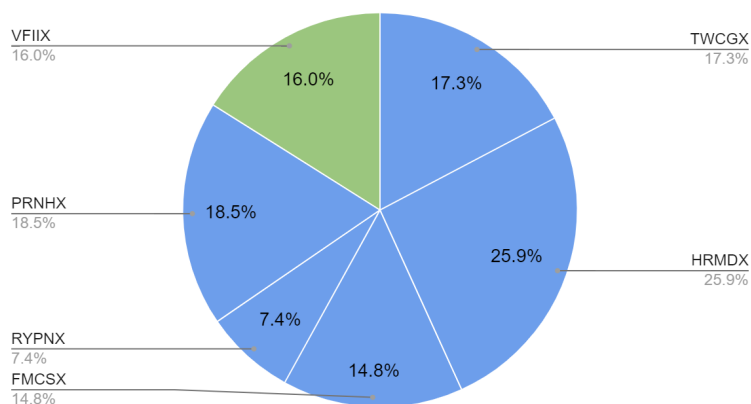
<b>Who?</b>	Stephanie
<b>What?</b>	Reallocate
<b>Where?</b>	Traditional IRA
<b>When?</b>	By June 15, 2023
<b>Why?</b>	Stephanie's current IRA asset allocation is inconsistent with her risk tolerance and her pre-retirement investing desires
<b>How?</b>	We will initiate the transfer by submitting a Transfer Information (TI) record, also known as a TIF (Transfer Initiation Form) to ACATS. Almost all transfers are completed within 10 business days. We will waive this fee for you. Then we will be able to make these trades for you.
<b>How much?</b>	This will cost you \$0.

### Option 2- Reallocate the Joint Taxable Account

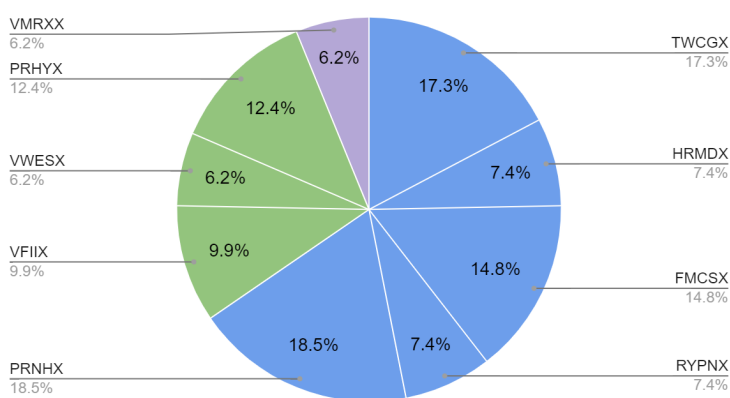
<b>Ticker</b>	<b>Current Value</b>	<b>New allocation</b>	<b>contribution annual</b>	<b>Weights</b>
DODGX- large value				0.00%
TWCGX- large growth	\$14,000		\$2,800	17.28%
HRMDX- mid cap value	\$21,000	-\$15,000	\$1,200	7.41%
FMCSX- mid cap blend	\$12,000		\$2,400	14.81%
RYPNX- small value	\$6,000		\$1,200	7.41%

PRNHX- mid cap growth	\$15,000		\$3,000	18.52%
NOSGX- small cap value			\$0	0.00%
TGVOX- mid cap value			\$0	0.00%
FIGRX- foreign large growth			\$0	0.00%
VQNPX- large blend div			\$0	0.00%
CGMRX- real estate			\$0	0.00%
USERX- equity gold			\$0	0.00%
VFIIX- MBS	\$13,000	-\$5,000	\$1,600	9.88%
HABDX- intermediate core			\$0	0.00%
VWESX- LT bond		\$5,000	\$1,000	6.17%
WHOSX- Government Bond			\$0	0.00%
PRHYX- corporate bond		\$10,000	\$2,000	12.35%
TWUSX- short term gov bond			\$0	0.00%
VMRXX- ST gov, Money market		\$5,000	\$1,000	6.17%
<b>TOTAL</b>	<b>\$81,000</b>		<b>\$16,200</b>	<b>100.00%</b>

**Taxable Account Current Allocation**



**Taxable Account New Allocation**



This account is 65.3% equities and 28.5% fixed income with around 6.2% in a money market bond fund. We did this to provide liquidity<sup>35</sup> within the fund. We decided to combine both of your risk tolerances here since this is a joint account. We do not want to be too aggressive with these investments, just in case you ever need to pull from your taxable account.

<sup>35</sup> Liquidity: refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price.



<b>10 year average</b>	<b>Standard Deviation</b>	<b>C.V.</b>	<b>Sharpe</b>	<b>Beta</b>	<b>R-squared</b>	<b>Alpha</b>	<b>Treynor</b>	<b>Risk Free Rate</b>
13.37	10.09	0.755	1.264	1.0	.98	1.63	12.73	0.61

Because this is a taxable account, you will pay taxes on any gain within your account. We have estimated that \$1,500 will be taxed at the long-term capital gains rate this year. For a more detailed explanation of this, please see Tax Chapter.

Using historical 10-year average returns, this reallocated portfolio will earn on average 13.37% per year. Again, this is a high estimate. We would expect to see around a 10% return per year.

The standard deviation of this portfolio measures how much investment returns deviate from the mean of the probability of investment returns. In other words, this tells you how “risky” the portfolio is.

The covariance (C.V.) of the portfolio is 0.755. A positive covariance means that both variables tend to be high or low at the same time. The covariance tells us how much the stock moves in relation to the market.

The Sharpe ratio measures the risk-adjusted relative returns. The higher the Sharpe ratio, the better. This indicates the risk of your portfolio is being offset well enough by its return. Typically, anything above a 0.5 is considered “good”.

Beta compares a stock’s historical volatility with a market index, such as the S&P 500. Portfolios with a beta greater than one tend to be riskier than their benchmark. The beta is 1.0 for the taxable account which is in line with the market beta of 1.0.

R-squared tells us how closely the performance of the portfolio can be attributed to the selected benchmark index. We prefer to use this measure because it tells us how our portfolio is mirroring the market. It is also a good indicator for risk and what measures of risk to use.

Alpha is the return above the benchmark index. This means that if you have a positive alpha, your portfolio has returned a higher percentage than the market in the past.

The Treynor ratio tells us how much excess return was generated for each unit of risk taken on by a portfolio. This ratio refers to systematic risk, or risk inherent in the market. This ratio tells us

what we should be compensated for given our level of risk, since diversification cannot remove this risk.

The risk-free rate tells us how much we should return with zero risk at all.

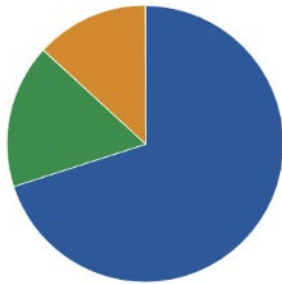
#### **Implementation - Taxable Account**

<b>Who?</b>	Joint
<b>What?</b>	Reallocate
<b>Where?</b>	Taxable Account
<b>When?</b>	By June 15, 2023
<b>Why?</b>	The joint taxable account has an asset allocation inconsistent with their risk tolerance and their pre-retirement investing desires
<b>How?</b>	We will initiate the transfer by submitting a Transfer Information (TI) record, also known as a TIF (Transfer Initiation Form) to ACATS. Almost all transfers are completed within 10 business days. We will waive this fee for you. Then we will be able to make these trades for you.
<b>How much?</b>	This will cost you \$0.

### **Option 3- Reallocate both 529 college savings accounts.**

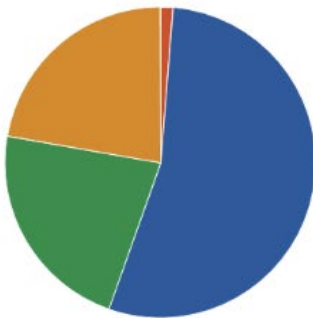
We recommend enrolling each 529 college savings account in a target date fund. Generally, target date funds are designed to grow faster earlier in the years because they are invested in riskier investments. As the investor approaches their deadline, (when the kids are about to start college) the fund aims to retain those earnings by switching to more conservative investments. In other words, the closer you are to college, the less risky the investments are.

Amelia's 529 college savings account should invest in American Funds College 2027 Fund because she is 13 years old. On average, the fund returns 7.9% per year. The fund is weighted 70% in bonds since the fund is only set to last another 5 years when Amelia starts college.



<span style="color: orange;">■</span> <b>Growth and Income</b>	<b>13%</b>
<span style="color: green;">■</span> <b>Equity Income/Balanced</b>	<b>17%</b>
<span style="color: blue;">■</span> <b>Bond</b>	<b>70%</b>

As of 2/28/2023 (updated annually at minimum).



<span style="color: red;">■</span> <b>Growth</b>	<b>1%</b>
<span style="color: orange;">■</span> <b>Growth and Income</b>	<b>22%</b>
<span style="color: green;">■</span> <b>Equity Income/Balanced</b>	<b>22%</b>
<span style="color: blue;">■</span> <b>Bond</b>	<b>54%</b>

Ben's 529 college savings account should invest in American Funds College 2030 Fund since he is 10 years old. This fund is also expected to return 7.9% per year. The fund is weighted about 50% in bonds and 50% in equity. This is because Ben does not start college for a few more years so his portfolio is seen as "riskier" than Amelias.

For more information on 529 college savings accounts, please refer to the Education Chapter.

#### Implementation - 529 College Savings Account

<b>Who?</b>	Amelia and Ben
<b>What?</b>	Reallocate
<b>Where?</b>	Both 529 college savings accounts
<b>When?</b>	Very quickly
<b>Why?</b>	Investments need to be adjusted annually based on the ages of the kids.
<b>How?</b>	Log into your VA-529 college savings plan account and reallocate based on the above recommendations.
<b>How much?</b>	This will cost you \$0.

## Alternatives

**Alternative 1-** You can take more risk.

Under our current recommendation, you have a moderate portfolio. You can always build a riskier portfolio if you feel like you can tolerate more risk. This will include a higher percentage of equity and lower percentage of fixed income. More risk will likely lead to higher returns in the long run.

Given your current allocations versus our recommended ones, the returns are lower. If you want to stay closer to your current expected returns then we can adjust your portfolio to be more risky. For example, we could increase the percentage in any of the retirement accounts and prove a more moderately aggressive risk tolerance.

**Alternative 2-** You can take less risk.

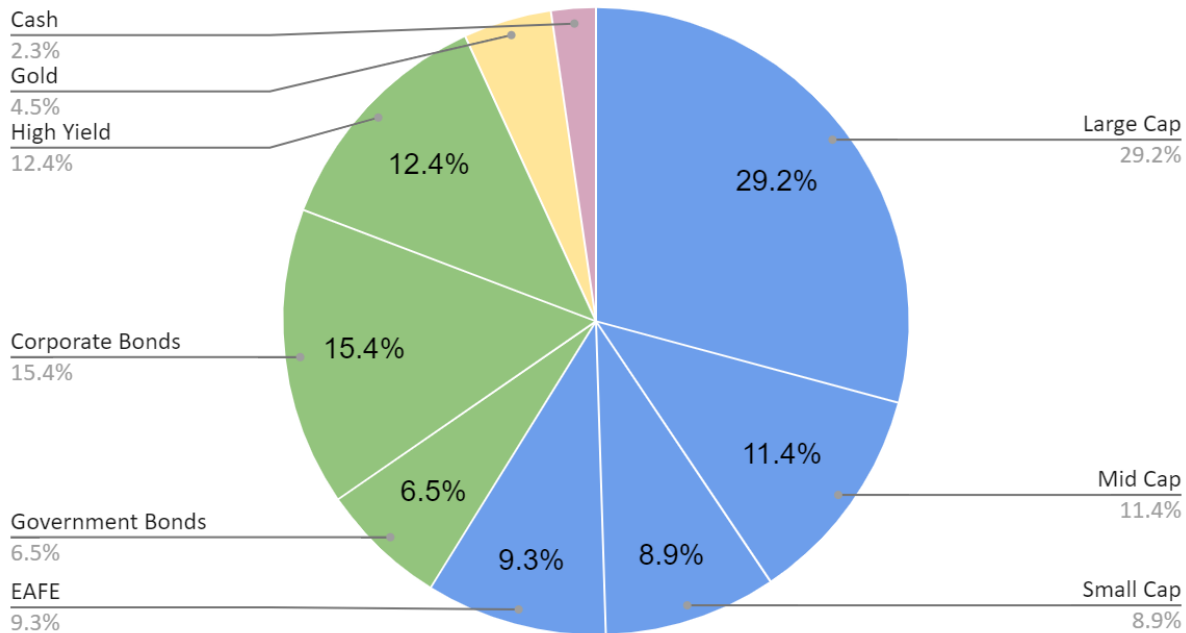
A portfolio less risky than our recommended portfolio would include a higher percentage of fixed income and lower percentage of equities. This will likely lower the return of your portfolio.

## Our Recommendation

We recommend reallocating all accounts mentioned above in options 1, 2, and 3 (all retirement accounts, the joint taxable accounts, and both 529 college savings accounts).

Your reallocated portfolio fits with your **moderate** risk tolerance. Not including your 529 college savings accounts, your new allocation is:

## Total Portfolio Allocation



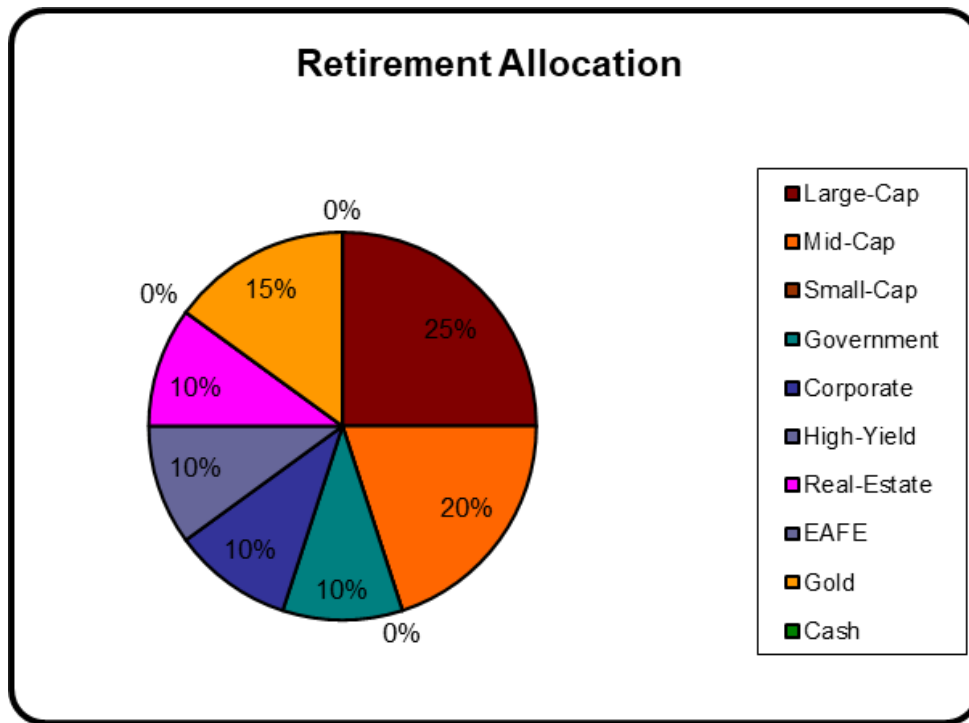
Your total portfolio 58.86% equity and 41.14% in fixed income which demonstrates a moderate risk tolerance.

## Monitoring

We would like to revisit this portfolio twice a year or when needed depending on market conditions. Reallocating in tax-deferred accounts never triggers a tax consequence, so this is something to consider long term. Additionally, if you feel your investments do not match your risk tolerance, then we are happy to reevaluate.

When markets are down, we will keep an eye on your investments. A general rule of thumb is to never have a fund weigh more than 30% in the portfolio. As funds begin to grow based on individual returns, their weights will increase respectively. Therefore, it is important for us to monitor these accounts. Please call us with any concerns you may have.

As you get closer to your retirement date, we will want to reallocate your portfolio to a more conservative allocation. This will include 50% equity and 50% bonds. We expect this allocation to earn 5% on a pre-tax basis per year. Please view our post-retirement investment allocation infographic below:



We will discuss this more in detail as you approach retirement age.

# Debt Planning

Cash Flow and Net Worth Analysis
Life Insurance Planning
Property and Casualty Insurance Planning
Retirement Planning
Investment Planning
Debt Planning
Education Planning
Employee Benefits Planning
Charity Planning
Estate Planning
Tax Planning
Implementation and Monitoring

## Introduction

Debt is a major concern for you. It is good to be vigilant around debt levels. We need to be conscious of debt and not get too much. At the same time, a certain level of debt is good for you. Debt, if used properly, can be used to enhance your lifestyle, and build wealth (in the case of homeownership). You are using debt appropriately and managing it wisely. With a few tweaks, you will have your credit cards debts paid off shortly.

## Goal

To prioritize the repayment of debts to minimize interest charges. To strategically use debt to enhance your life.

## Assumptions

1. The date of this plan is June 1, 2023.
2. You have good credit, credit scores consistently in the 840 range.

## Current Situation

You have the following debts.

### A. Unsecured debt

You owe a total of \$18,479.00 in student debt.

1. Stephanie's unsubsidized Stafford student loan, Year 1. You pay \$277.34 on it monthly, and you have made 84 payments to date. The interest rate is 6.80% and the balance is \$9,009.
2. Stephanie's unsubsidized Stafford student loan, Year 2. You pay \$291.55 on it monthly, and you have made 84 payments to date. The interest rate is 6.80% and the balance is \$9,470.

You have \$6,250 in credit card debt:

3. Big National Bank Visa. You pay \$300 on it monthly. The balance is \$2,500 and the interest rate is 18.25%.
4. University Bank MasterCard. You pay \$300 on it monthly. The balance is \$3,750 and the interest rate is 18.25%.

## **B. Secured debt**

5. You have a mortgage with \$260,347 remaining in the balance. The interest rate you pay is 5.13%. You pay \$1,589.90 monthly in principal and interest.
6. You owe \$12,330 on your Acura. It has a 2.45% interest rate. You pay \$438.80 a month.

You also have the following credit card that you just paid off:

7. Discover card, no balance currently.

Your **total debt service each month is \$3197.59** (\$277.34, \$291.55, \$300, \$300, \$1,589.90, \$438.80).

## **Option 1**

### **1. Explore loan forgiveness for Stephanie's student loans**

You are doing a great job at paying off student debt. You should continue doing that. There is a one-time federal student loan debt relief program that you should pursue once it restarts. If you get the relief, your student loans will be canceled for up to \$20,000.

You are in the MFJ status. For MFJ filers, you will be eligible if you reported less than \$250,000 in AGI for either 2020 or 2021. (You had an AGI of \$228,002 for 2022).

If you were a Pell Grant recipient while in school, you are eligible for \$20,000 in loan forgiveness. If you did not have a Pell Grant, you can still qualify for \$10,000 in loan forgiveness.



This program is on pause while legal challenges make their way through courts. The legality of the program is currently before the Supreme Court. A decision is expected in the last week of June 2023. The program is likely to be upheld and restarted. We will let you know when a decision comes down.

In the meantime, please continue to make your student loan payment.

## **2. Consolidate your credit card debt into a 0% Chase Card**

You are currently paying \$600 a month toward combined balances of \$6,250. The interest rates on these two cards are 18.250% (Visa) and 16.750% (MasterCard). According to your credit card statements, you have excellent credit and maintain FICO scores around 840. You should be able to obtain a credit card with a lower interest rate and transfer the balances onto it.

The Chase Balance Transfer MasterCard provides 0% intro APR on balance transfers for **21 months** and 0% APR for purchases for 12 months from the card's opening. You could pay \$625 a month (\$25.00 more than you are paying now), and have it paid off in ten months. Be careful to pay off the balance within 20 months or the interest rate can rise to up to 29.49%

You can apply here: <https://citicards.citi.com/usc/LPACA/Citi/Cards/Simplicity/ps/index.html>

Cost: \$25 extra a month

## **3. Your mortgage**

There is little that can be done to improve your mortgage debt at this time. What we mean is that the rate you are paying on your mortgage was a little high, but now that interest rates have been raised so severely in the last 18 months, your mortgage rate seems very competitive at this time. To state it another way, it will be difficult to obtain a mortgage at this time with a rate less than 5.125%.

## **Option 2**

1. **Consolidate your credit card debt into a 0% Discover Card.** There are other options for consolidating your credit card debt onto a 0% card.

Discover provides 0% intro APR on balance transfers for **15 months**. You could pay \$625 a month (\$25.00 more than you are paying now), and have it paid off in ten months. Be careful to pay off the balance within 14 months or the interest rate can rise to up to 27.47%.

This card may be a better option for you because (a) you are already a Discover Card holder, (b) you just paid off a balance with them and therefore should be very credit worthy in their eyes, and (c) the interest rate is slightly lower if you do not pay off the balance in the time-period. (You get six months less to pay off the balance with this card as opposed to the Chase card).

You can apply here: <https://www.discover.com/products/it-card-bt.html>

Cost: \$25 extra a month

## Recommendation

### 1. Explore loan forgiveness for Stephanie's student loans

Who?	Stephanie
What?	Loan Forgiveness
Where?	US Department of Education, <a href="https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info">https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info</a>
When?	July 1, 2023, after a decision of the USSC
Why?	You could be eligible to have all of your debt forgiven
How?	<a href="https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info">https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info</a>
How much?	There is no cost to you

### 2. Consolidate your credit card debt into a 0% Chase Card

Who?	James and Stephanie
What?	Consolidate your credit card debt into a 0% card
Where?	Chase

<b>When?</b>	By July 1, 2023
<b>Why?</b>	You have great credit scores and can qualify for a 0% rate. This will save you thousands in interest payments
<b>How?</b>	Apply online. <a href="https://citicards.citi.com/usc/LPACA/Citi/Cards/Simplicity/ps/index.html">https://citicards.citi.com/usc/LPACA/Citi/Cards/Simplicity/ps/index.html</a>
<b>How much?</b>	No cost to you

## Monitoring

Some monitoring items that we want to make sure that we stay on top of are:

1. At the end of June 2023, there will be a decision rendered on the legality of the student loan forgiveness program. We will update you as to this decision and what it means for Stephanie's eligibility for loan forgiveness.
2. We would like to hear about which consolidation 0% credit card you chose and your progress in paying that down. You should be credit card debt free in ten months.

# Education Planning

Cash Flow and Net Worth Analysis
Life Insurance Planning
Property and Casualty Insurance Planning
Retirement Planning
Investment Planning
Debt Planning
Education Planning
Employee Benefits Planning
Charity Planning
Estate Planning
Tax Planning
Implementation and Monitoring

## Introduction

Saving for education is a common goal for most of our clients. Many parents, like you, wish to fund the entirety of their children's college educations and allow them to leave undergraduate debt free (with no student loans). The good news is that because of your diligent savings and investment choices up to this point, it is highly likely that you will be able to pay for the entire cost of your children's undergraduate education, including some of the "extras" you wish to cover.

## Goals

Your education funding goal is to fund "as much of your children's college costs as possible", and possibly pay for "extras." You would also like to know how to plan for extras in undergraduate and how to plan for graduate or professional school expenses.

## Assumptions

We are proceeding with the following assumptions made regarding education funding. We have stated you wish to fund as much of your children's college costs as possible, including extras. The traditional measure of college cost is called **Cost of Attendance (COA)**<sup>36</sup>. The items traditionally

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<sup>36</sup> COA: Cost of attendance. This is the estimated total cost of attending a university or college. It is expressed annually. It includes all costs including room and board, transportation, books and supplies and miscellaneous spending money/expenses.

associated with Cost of Attendance include tuition, fees, books and supplies, room and board and transportation.

**Assumption 1.** For the 2022-23 school year, the average per year cost of a Virginia Public University is \$26,484.

**Chart 1: 2022-23 Full-Time In-State Undergraduate Total Charges**

<b>Institution Type</b>	<b>Charges</b>	<b>Amt Increase</b>	<b>% Increase</b>
<b>Baccalaureate Institution Average</b>			
Tuition and Mandatory E&G Fees	\$9,731	\$258	2.7%
Mandatory Non-E&G Fees	\$4,773	\$151	3.3%
Tuition and All Mandatory Fees	\$14,504	\$409	2.9%
Room and Board	\$11,981	\$478	4.2%
<b>Total Charges</b>	<b>\$26,484</b>	<b>\$887</b>	<b>3.5%</b>
<b>Virginia Community College System</b>			
Tuition and Mandatory E&G Fees	\$4,606	\$0	0.0%
Mandatory Non-E&G Fees	\$14	\$0	0.0%
<b>Total Charges</b>	<b>\$4,620</b>	<b>\$0</b>	<b>0.0%</b>
<b>All Public Institutions' Average<sup>1</sup></b>			
Tuition and Mandatory E&G Fees	\$9,212	\$229	2.6%
Mandatory Non-E&G Fees	\$4,343	\$137	3.3%
Tuition and All Mandatory Fees	\$13,554	\$366	2.8%
Room and Board	\$11,988	\$449	3.9%
<b>Total Charges<sup>2</sup></b>	<b>\$24,838</b>	<b>\$788</b>	<b>3.3%</b>

Source: SCHEV, 2022-23 Tuition and Fees at Virginia State Colleges and Universities, August 2022.

**Assumption 2.** College costs, like everything else, inflate over time. **Table 1** sets forth the recent growth in college costs. The far right column of Chart 1 (above) sets forth the various inflation rates for college costs, depending on the type of institution.

**Table 1. Growth in Virginia college costs, 2020-22, Virginia 529**

<b>College Type</b>	<b>2021-22</b>	<b>2020-21</b>	<b>Percent Increase</b>
<b>In State Public Four Year</b>	\$22,600	\$22,290	1.8%
<b>Out of State Four Year public</b>	\$39,510	\$38,870	1.6%

<b>Private nonprofit Four Year</b>	\$51,690	\$50,580	2.2%
<b>Two year public</b>	\$13,130	\$12,900	1.8%

Source: [https://virginia529.inviteeducation.com/contents/projected\\_cost?student=15210](https://virginia529.inviteeducation.com/contents/projected_cost?student=15210)

In the past, college costs have inflated faster than everyday items, investments, and house values. Based upon the recent growth rate in college costs, we have assumed that future college costs will grow at an **annual** rate of **3.0%**<sup>37</sup> for each child.

**Assumption 3.** There are no current plans for you to have additional children.

According to our calculations, this table sets forth what you will **need** to have the following accumulated **by each child's first year**<sup>38</sup> of school for a Virginia **Public** Four Year Institution:

	<b>COA Virginia Public University 2022-23</b>	<b>Years until College</b>	<b>Total Needed Yr 1</b>
<b>Amelia</b>	\$26,484	5	\$ 114,694
<b>Ben</b>	\$26,484	8	\$ 125,329

## Current Situation

Your goal is to fully fund Amelia and Ben's college educations. In other words, you would like to be able to save the amounts above for each child so that at least the total amount above is available when each starts college. You have done an excellent job saving for their education. You are well on track to be able to meet your educational funding goals. That is a rare accomplishment and should be celebrated.

The current balances in each child's VA 529 account are: \$80,300 (Amelia) and \$65,600 (Ben). Each is owned by Stephanie.

You have accepted \$15,000 for each child from Grandmother Elizabeth for education funding, bringing the balances for each 529 to \$95,300 (Amelia) and \$80,600 (Ben). Currently you have Amelia's 529 allocated to ESG Core Equity (Amelia) and Ben's allocated to an Active Aggressive portfolio.

In the Investments Chapter, we have recommended that you reallocate Amelia's 529 college savings account into a **target date fund**<sup>39</sup>, the American Funds College 2027 Fund, which returns

<sup>37</sup> The three percent is a blended average of the rates on Chart 1 and Table 1.

<sup>38</sup> This data comes directly from the Virginia529 website, the Passport tool. See <https://virginia529.inviteeducation.com/families/9546>

<sup>39</sup> "Target date fund" means a fund offered by an investment company that seeks to grow assets over a specified time period to a time certain to meet a targeted goal.

on average, 7.9% per year. We also recommend reallocation of Ben's 529 college savings account into an American Funds College 2030 Fund which likewise returns 7.9% per year.

Below, we present numerous calculations which plan for **fully** funding each child's college. These calculations are based upon (a) the balances after you deposit \$15,000 additional for each, and (b) the reallocated portfolios (into the American Funds College 2027 and 2030).

## Options

### 1. Option 1: Fully funding an in state public university

Option 1 is fully funding four years of the inflated aggregate COA at an instate (Virginia) public University. We have assumed a 3.00% inflation rate for college costs, a 7.9% pre-tax return on their target date funds, a current annual cost of \$26,484 and current savings/balances of \$95,300 (Amelia) and \$80,600 (Ben).

**You already have saved enough to fully fund an in-state public university** assuming current funds grow at the rate of 7.9%. Table 1 sets forth the calculations:

**Table 1: Fully Funding Four Years COA at an In State, Public University**

	2022-2023 Annual Cost	Fully Funding Four Year In-State Public University	Extra Savings Needed?
<b>Amelia</b>	\$26,484	\$114,694	No
<b>Ben</b>	\$26,484	\$125,329	No

### 2. Option 2: Fully funding an out of state public university

Option 2 is fully funding four years of the inflated aggregate COA at an **out of state** public University. We took the 2021-22 cost of \$39,510, and inflated it by two percent over one year, to \$40,300.20. We have assumed a 3.00% inflation rate for college costs, a 7.9% pre-tax return on their target date funds, a current annual cost of \$40,300 and current savings/balances of \$95,300 (Amelia) and \$80,600 (Ben).

In order to save the full amount needed to fully fund four years at an out of state public university for each, you will need to save additional money each month.

Table 2 sets forth the calculations:

**Table 2: Fully Funding Four Years COA at an Out of State, Public University**

	2022-2023 Annual Cost	Fully Funding Four Year Out of State Public University	Extra Savings Needed?	Fixed Monthly Savings Needed	Serial Monthly Savings Needed

Amelia	\$40,300	\$174,526	Yes	\$453.67	\$423.13
Ben	\$40,300	\$190,170	Yes	\$295.49	\$265.12

### *Serial Monthly Savings v. Fixed Monthly Savings*

A fixed level of savings means that you would save the same amount every month, over the years until each reaches college. Serial monthly savings means you increase the savings amount every year, often tied to salary increases. The serial monthly savings payments start lower than the fixed and increase over time. Your salaries are projected to grow 3% each year, which means saving a little more each year. You would be increasing the percentage of savings each year, which means the amount of savings decreases. This is why the “serial” monthly savings appear a little smaller on average. Under the serial approach, your monthly savings would start at \$423.13 and \$265.12 for each and increase 3% a year until each reaches college. These are the amounts you would need to start saving now to ensure that you can pay the full four-year COA at an out of state public university.

### **C. Option 3: Fully funding a private, not for profit, university**

Option 3 involves fully funding four years of the inflated aggregate COA at a private University. We took the 2021-22 cost of \$51,690, and inflated it by three percent over one year, to \$52,723.80. We have assumed a 3.00% inflation rate for college costs, a 7.9% pre-tax return on their target date funds, a current annual cost of \$52,723 and current savings/balances of \$95,300 (Amelia) and \$80,600 (Ben).

In order to save the full amount needed to fully fund four years at a private university for each, you will need to save additional money each month.

Table 3 sets forth the calculations:

**Table 3: Fully Funding Four Years COA at a Private University**

	2022-2023 Annual Cost	Fully Funding a Private University	Extra Savings Needed?	Fixed Monthly Savings Needed	Serial Monthly Savings Needed
Amelia	\$52,723	\$228,326	Yes	\$1187.78	\$1107.83
Ben	\$52,723	\$249,498	Yes	\$736.56	\$660.85

### **D. Option 4: Fully funding a two-year public followed by two years at a in-state public university**

Option 4 involves fully funding COA at a community college for two years, followed by fully funding two years’ COA at an in-state public university. This calculation is a two-step process. First, we took the 2021-22 cost of two-year public (community college) \$13,130, and inflated it



by three percent over one year, to \$13,523.90. We also inflated the cost of two years at the public in-state public university to the start dates for each child.

We have assumed a 3.00% inflation rate for college costs, a 7.9% pre-tax return on their target date funds, a current annual cost of \$13,534 and current savings/balances of \$95,300 (Amelia) and \$80,600 (Ben).

You do not need to save any additional money to pay for this alternative.

Table 4 sets forth the calculations:

**Table 4: Fully Funding Two Years COA at a Community College and Two Years at a Public In State University**

	Current Community College Cost	Current Uni Cost	Yr 1 CC Cost	Yr 2 CC Cost	Yr 1 Uni Cost	Yr 2 Uni Cost	Total Cost	Current Savings	What those savings will grow to by 1st year of College
<b>Amelia</b>	\$13,293	\$26,484	\$15,678	\$16,148	\$32,511	\$33,549	\$97,886	<b>\$95,300</b>	\$139,380
<b>Ben</b>	\$13,293	\$26,484	\$17,132	\$17,646	\$35,592	\$36,600	\$107,030	<b>\$80,600</b>	\$148,084

Under this alternative, you have far more than you need already saved. This table shows what happens if you just let current savings grow at the rate of the reallocated 529s. You see that under this projection, **you would have \$41,494 extra for Amelia and \$41,053 for Ben.** This Option would allow you to have significant savings to dedicate to graduate or professional school tuition and fees for both children.

The extra amounts could also be transferred amongst the children. The ownership of the 529 can simply be changed if there is an excess.

Beginning in 2024, under Secure Act 2.0, if there are excess amounts, the beneficiary can transfer up to \$35,000 of excess unused amounts to a Roth IRA. The accounts must have been open for fifteen (15) years (they are). In other words, any unused amounts can be converted into a retirement savings vehicle for the child.

## Recommendations

Our recommendations for education planning are as follows:

1. Accept the \$15,000 from Elizabeth for each child and put it in the 529s for each child.

## Implementation

<b>Who?</b>	James and Stephanie
<b>What?</b>	Accept Elizabeth's \$15,000 for each child; allocate to each child's 529s
<b>Where?</b>	VA 529, <a href="http://www.virginia529.com">www.virginia529.com</a>
<b>When?</b>	Now
<b>Why?</b>	To maximize tax deferred savings in these accounts
<b>How?</b>	529 Plan: You will complete all the necessary paperwork online
<b>How much?</b>	529 Plan: \$15,000 additional to each 529 account; reallocate as it set forth in the Investments Chapter

### 2. Reallocate the 529s into the target date funds

In the Investments Chapter, we have recommended that you reallocate the 529 college savings into **target date funds** which returns on average, 7.9% per year. Please refer to the Investments Chapter for information on how to implement this.

## Alternatives for College Funding

**Alternative 1.** Need based financial aid. In general, we do not like factoring in need based financial aid because the laws, rules and calculations regarding need based financial aid that will apply in the future are difficult to predict. We performed a need based financial aid calculation based upon **today's** laws, rules, and regulations.

Based upon **today's** laws, rules and regulations, we think it very unlikely that either child will receive need-based financial aid, unless they attend a **four-year private college for all four years**. Even then, with your anticipated rises in salaries, savings and assets, the amount of need-based aid will be very small. Very simply, your income and assets are too high to qualify for need based financial aid (this is a good thing! You are diligent savers).

We calculated the potential need based financial aid for each child. We were able to access the Virginia 529 Financial Aid Calculators and get data based upon potential need based financial aid if Amelia and Ben were enrolling this Fall 2023. See <https://www.virginia529.com/resources/financial-aid-calculator/>.

Based upon the calculations returned, Amelia's **expected family contribution (EFC)** is \$47,530 and Ben's is \$44,770. EFC is subtracted from COA to determine eligibility for need based financial aid.

Table 5 sets for the calculations.

### Table 5

	2 Year Public College	4 Year Public College (in State)	4 Year Private College
<b>National Average Cost</b>	\$19,230	\$27,940	\$57,570
<b>Estimated EFC Amelia</b>	\$47,530	\$47,530	\$47,530
<b>Estimated EFC Ben</b>	\$44,770	\$44,770	\$44,770
<b>Estimated Financial Need (Amelia)</b>	No need	No need	\$10,040
<b>Estimated Financial Need (Ben)</b>	No need	No need	\$12,800

You will see that unless the children attend a private four-year university for all four years, you are unlikely to qualify for need based financial aid. All of our calculations and projections proceed on this assumption: that neither Amelia nor Ben will receive need based financial aid.

**Alternative 2.** Parent PLUS Loans. We know that you are extremely concerned about fully funding each of your children's college educations. We wanted to present a catch all, stop gap that will hopefully allow you to have near total confidence that the children's college can be fully funded. There is a loan, called a Parent PLUS loan, which essentially allows the **parent**, not the child, to borrow the **entire amount** of COA minus your expected family contribution. To state it another way: these Parent PLUS loans allow the institution to loan you, not your child, up to the full COA. They are slightly more expensive than normal student loans. We don't recommend this, mostly because at this time, they seem unnecessary. We just wanted you to know this tool exists.

## Monitoring

Some monitoring items that we want to make sure that we stay on top of are:

1. Changes in college costs. There is some indication that costs for the non-flagship institutions may fall in the future.
2. Changes in need based financial aid rules. You may be able to qualify for more need based financial aid if the rules change.
3. Reviewing the target date funds to make sure that they are performing as expected, 7.9% target.
4. What are the children's preferences for college? Let's start asking them now (you as the parents ask them), so we can get some idea of where this is heading.

# Employee Benefits Planning

<b>Cash Flow and Net Worth Analysis</b>
<b>Life Insurance Planning</b>
<b>Property and Casualty Insurance Planning</b>
<b>Retirement Planning</b>
<b>Investment Planning</b>
<b>Debt Planning</b>
<b>Education Planning</b>
<b>Employee Benefits Planning</b>
<b>Charity Planning</b>
<b>Estate Planning</b>
<b>Tax Planning</b>
<b>Implementation and Monitoring</b>

## Introduction

In this chapter we will discuss your employee benefits and the multiple choices that your new employer, Andersen, has given you. Looking at these options can be overwhelming for multiple reasons. When deciding for your health, disability insurance, AD&D, dental, vision, long term care and ancillary benefits it is hard to see the differences and qualifications for each plan. We will also discuss your curiosity questions about Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). You both have done an amazing job coming to us with questions about your benefits and wanting the best options for your family. This will also be an adjustment cost-wise from James's previous plan with his old company, Andersen benefits are more expensive but there are extra benefits that you were not getting before.

## Goals

First off, we want to prepare both of you for the upcoming open enrollment period that is from June 1st until June 15th, 2023. In order to pick the most optimal benefits for you and your family we looked into all the options that Andersen has to offer. We will look into your health, disability, AD&D, dental, vision, long term care and ancillary benefits to find the most optimal fit for you.

**Assumptions:**

1. James will qualify for the 25 weeks at 100% base salary pay in the outcome that he needs short-term disability.
2. The family will be added to James's insurance for health, dental, and vision.
3. You will not receive Social Security disability benefits.
4. You want to continue to save for other financial planning goals in the event of a disability.
5. Any cash settlements received will be invested using a moderately conservative asset allocation.
6. The children will be getting braces in 2023 per the timeline with the orthodontist Dr. McCoy.
7. The enrollment period we are suggesting is within 30 days of hire for James and his dependents.
8. James walks over 10,000 steps a day and tracks it accordingly.
9. Along with asking you about HSAs and FSAs, they also asked about Dependent Care FSAs.
10. The family does not frequent the doctor annually besides the annual checkup and in case of emergencies.
11. The Yost's want to change to Andersen benefits.

**Health Insurance****Current situation:**

Considering the **acquisition**<sup>40</sup> with Andersen and the new open enrollment period coming, there is a change in your health insurance. Previously you were paying \$420 monthly (\$5,040) for coverage from James's old company to cover the family for health insurance.

**Options****Anderson Benefits**

You have four options in the state of Virginia.

1. Cigna Low Deductible Plan
2. Cigna Medium Deductible Plan
3. Cigna High Deductible Plan
4. Kaiser Permanente HMO

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<sup>40</sup> Acquisition: When one company (the acquirer) buys most or all shares in another company (the target) to assume control of its assets and operations.

### **Option 1: High deductible HSA**

This option has lower premiums than the other two Cigna health options. With a High Deductible Health Savings Account (HSA) your fixed monthly costs will be lower but your variable costs will be higher. That means that if an emergency happens you will pay more out of pocket expenses than you would with either of Cignas health plans. Also through this plan Andersen will make a \$39.24 per pay period contribution into your HSA totalling \$1,020.24 per year.

The option of a high deductible health plan with a health savings account (HSA) may also be appealing. We wanted to provide some more clarification with this as well. First, it is important to remember that you can only contribute to an HSA if you have a high deductible plan. You can contribute to the HSA with pre-tax dollars. The contributions in the HSA will then grow tax-deferred and in the event you need to withdraw from the HSA account for a **qualified medical expense**<sup>41</sup> then you will get that money tax-free to use for those qualified medical expenses. Qualified medical expenses are usually ones that health insurance does not cover.

### **What is a high deductible plan?**

A high deductible plan provides you with a lower monthly premium, but you would have a higher deductible. This means that you would pay more out of pocket for your health care items and services before insurance jumps in. We recommend high deductible healthcare plans when clients are in good health, rarely need prescription drugs, and do not plan to incur significant medical expenses in the coming years.

### **Option 2: Medium Deductible Health Plan (FSA)**

Another option for your medical plan for health insurance is to enroll in Cigna's Medium Deductible plan. This would be FSA compared to the first option which is an HSA account.

### **What is an FSA?**

A Flexible Spending Account (FSA) can be used to pay for certain out-of-pocket healthcare costs. This can include deductibles, health plan co-payments, coinsurance, dental work and orthodontia, eyeglasses and contact lenses, and prescriptions. You can visit the IRS website for a full list of these qualified expenses. You contribute to your FSA by electing an amount to be voluntarily withheld from your pay by your employer. This is sometimes called a "salary reduction agreement." The employer may also contribute to your FSA if specified in the plan. For 2023, participants may contribute up to an annual maximum of \$3,050. Money for your FSA is deducted

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<sup>41</sup> Qualified Medical Expense: Generally, the same types of services and products that otherwise could be deducted as medical expenses on your yearly income tax return.

automatically from your paycheck before taxes are taken out. You can then use your pre-tax FSA funds throughout the plan year to pay for eligible health care or dependent care expenses. Contributions aren't includible in income. Reimbursements from an FSA that are used to pay qualified medical expenses aren't taxed. So, you do not pay tax on the front or back end.

### **What happens if you still have money in your FSA at the end of the year?**

Flexible Spending Accounts state that you must use the entirety of their tax-free funds before the end of each plan year or forfeit any remaining FSA funds to their employer. (Also known as “use it or lose it”). Luckily, The Internal Revenue Service allows \$610 of unused funds to carry over from 2023 to 2024. Your employer might also offer a grace period up to 2.5 months to use the money in your FSA account.

We know that you were worried about the “use it or lose it” boundaries with a FSA in case you had extra funds that you did not use.

### **Alternative 1: Kaiser Permanente**

Kaiser Permanente is managed care. This means that your health care choices are restricted to those doctors and providers that are in their network. Simply put, if you chose Kaiser, you must go to a Kaiser facility and meet with a Kaiser provider. If you go out of network, you will pay the cost of that provider yourself. Kaiser is available only in eight states and the number of providers is less than say Blue Cross Blue Shield. Kaiser also uses gatekeeping. Gatekeeping is when a Kaiser representative is assigned to your claim/case and their job is to “manage” the patient’s care by authorizing tests, referrals, hospitalizations and lab tests. Gatekeepers limit your ability to seek specialist care directly. Kaiser’s focus seems to be controlling costs, not providing good quality patient care. In addition, Kaiser requires all claims to be arbitrated, so if Kaiser messes up, you will not be able to go to court to seek redress. We think that out of your options Kaiser is the least desirable in terms of getting insured.

### **Alternative 2: Low Deductible Health Plan (FSA)**

There is one more choice that you get when it comes to health plans and that is the low deductible health plan. Under this you pay higher premiums for a lower deductible. This would be a good plan if you were going to meet your deductible quickly in the year but since your family is in good health and does not need to go to the doctor often, this plan would just be you paying higher premiums for an offset of costs that you will not use.

### **Recommendation:**

Our recommendation is to enroll in the High Deductible HSA health plan (Option 1) through Cigna. We are recommending this health insurance option because your family is healthy and does not frequent the doctor. Having the HSA also gives you another account to invest your money tax-deferred. With the HSA you will have the opportunity to carry that money over year after year and have it for emergencies if needed be. We have decided that the amount that Andersen is putting into your account every pay period will be sufficient for your family and at least for this year we do not think you need to contribute to your HSA. Since your family is healthy and does not usually have high health costs, the money in the HSA that you do not use will continue to grow and in the event that you do need that money it will be there for you.

Since you had questions on the **Dependent Care FSA**<sup>42</sup>, the reason we do not want to do a Dependent Care FSA for your family is because you already have a very responsible 13 year old who can and already will babysit and take care of her younger brother. Also, the only other dependent to take care of would be Elizabeth and she is doing great on her own and is in good health. For this year we do not need to worry about a dependent care issue but we will monitor this situation if anything happens to change.

We understand that these premiums are higher than what you are used to paying. Through Andersen this is the least expensive policy that you can be enrolled in but it still has great benefits for your already healthy family. The positive side of that is that you get more ancillary coverage that we will discuss further in this chapter.

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<sup>42</sup> **Dependent Care FSA** - a pre-tax benefit account used to pay for eligible dependent care services.



## High Deductible HSA

	In-Network	Out-of-Network
Calendar-Year Deductible Individual Family	\$1,500 \$3,000	\$1,500 \$3,000
Out-of-Pocket Maximum Individual Family (Includes Deductible)	\$3,500 \$6,550	\$3,500 \$6,550
Lifetime Benefit Maximum	Unlimited	
Coinsurance	20%	40%
Office Visit	20% after deductible	40% after deductible
Specialist Visit	20% after deductible	40% after deductible
Preventive Care	No charge	40% after deductible
Hospital Inpatient	20% after deductible	40% after deductible
Outpatient Surgery	20% after deductible	40% after deductible
Urgent Care	20% after deductible	
Emergency Room	20% after deductible	
Chiropractic (20 visits/year)	20% after deductible	40% after deductible
Prescription Drugs Mail Order Generic Brand Formulary Brand Non-Formulary	Subject to Deductible 2x retail copay \$15 copay \$30 copay \$60 copay 30% not to exceed \$250	Subject to Deductible Not Covered Not Covered Not Covered Not Covered

## Implementation - Enroll into High Deductible HSA

<b>Who?</b>	James
<b>What?</b>	Enroll into Andersen's High Deductible HSA
<b>Where?</b>	Andersen
<b>When?</b>	When Andersen's benefits are able to be picked in June 1st until June 15th 2023
<b>Why?</b>	In order to have a health plan for your family
<b>How?</b>	<ol style="list-style-type: none"><li>1. Go to UKG Pro and sign in via SSO</li><li>2. Click "Menu"</li><li>3. Click "Manage My Benefits"</li><li>4. Review your profile and shop the benefits for which you are eligible</li><li>5. Click on each plan and select or decline coverage<ol style="list-style-type: none"><li>a. If you do not want to enroll in the coverage, you must decline coverage</li><li>b. You cannot complete the enrollment process until you have enrolled or declined each benefit option</li><li>c. If you leave the enrollment page, click the continue button to pick up where you left off</li></ol></li><li>6. Click "Review and Checkout" when you have completed the enrollment process to submit your elections.</li></ol>
<b>How much?</b>	\$399.89 per pay period (taken out of paycheck), totalling \$10,397.14 per year in premiums.

## Short-Term Disability

Andersen provides short-term disability coverage at no cost to you so this is a great benefit from James's employer. In the implementation section of short-term and long-term disability is a draft email that we will have James send to the HR team at Andersen in order to fully understand his benefit package and see if the length of service carries over into Andersen's plans.

## Current Situation

Stephanie currently is covered by her employer for **short term disability**<sup>43</sup> and **long-term disability**<sup>44</sup> policies. A great thing for Stephanie is that her policies are **own occupation policies**.<sup>45</sup> This is advantageous when it comes to disability because regardless of what disability you have

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<sup>43</sup> Short Term Disability: An instance that puts you out of work temporarily, such as injury, illness, or procedure.

<sup>44</sup> Long Term Disability: The impairment must be expected to result in death or to have lasted, or be expected to last, for a continuous period of not less than twelve months.

<sup>45</sup> Own Occupation Policies: A type of disability insurance that covers individuals who become disabled and are unable to perform the majority of the occupational duties that they have been trained to perform.

that causes you to not be able to do your job then you will be covered by your policy and could potentially get a different job depending on the situation. Own occupation is different from **any occupation policies**<sup>46</sup> where you only qualify for benefits once you cannot work at all anymore or do any job. Own occupation policies are a safer disability policy to have. Andersen also provides own occupation policies which James will be enrolled in. Through Stephanie's work coverage for her short-term disability, in the event that she is the only one to be disabled she will have 105.25% of the current expenses covered. This is a good position for her to be in since it will end in a surplus of about \$722 per month of short-term disability coverage.

### **Option 1 - Enroll in Andersen's Short-Term Disability Insurance**

Enroll into Andersen's short-term disability coverage for James and email HR to find out service length. The email draft is provided in the implementation section for short-term and long-term disability. After sending the email we are assuming that James would qualify for 100% base pay paid for 25 weeks. This policy has an **elimination period**<sup>47</sup> of seven days and 180 days worth of coverage. Since short-term disability is of no cost to James and Andersen will be paying the premiums, if James takes short-term disability this will be income and it will be taxed at your marginal rate. With James's policy through Andersen in the event that he was to become disabled the current expenses would be covered 104.25% which would be a surplus of about \$585 per month. We see this as adequate coverage for short-term disability.

### **Option 2- Buy More Short-Term Disability Insurance**

According to our calculations if there is simultaneous disability between the both of you, your insurance will only cover 94.41% of your expenses. This is a shortfall of about \$769 per month. We think this is a manageable amount of shortfall because of the expected decrease in expenses if you both were not able to work. Expenses that could decrease are car expenses, commuting expenses, professional clothing, and childcare expenses. If you choose to buy more short-term disability coverage we will have to look at third parties to buy more coverage.

## **Long-Term Disability**

After 180 days of being disabled you can qualify for long-term disability benefits through your employer sponsored plan.

### **Current situation:**

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<sup>46</sup> Any Occupation Policies: A type of disability insurance that provides coverage for when the insured is unable to work in a job suitable for them based on education, experience, and age.

<sup>47</sup> Elimination Period: The time period between an injury and the receipt of benefit payments.

Stephanie currently is covered by her employer for short term and long-term disability policies. She also pays \$90 per month for additional long-term disability coverage through her employer. One issue that we see arise is that if Stephanie was the one to be disabled, you would have a shortfall of around \$1,050 a month to cover your expenses. This is because Stephanie's policy through her work is pre-tax so we have to account for the tax being withdrawn when she receives the benefits. We will discuss the options for this in the alternative section of this chapter.

It is a great thing that you were on top of these new benefits and came to us with questions to learn more about what Andersen has to offer. Considering James will be enrolled into Andersen's long-term disability benefits, he will be covered according to our calculations for long-term disability. If both of you become disabled simultaneously then there is a shortfall of around \$2,820 per month in order to cover your expenses. Your simultaneous benefits end up covering around 79.49% of your current expenses. We will discuss our suggestions for this shortfall in our recommendation section of this chapter.

### **Option 1- Enroll in Andersen's Long-Term Disability Insurance**

Through Andersen myBenefits James receives long-term disability insurance that will cover 60% of his pre-disability income. With our calculations if James is the only one that gets disabled you will cover your current expenses by 102.22% which is good because the percentage we want to see is anything over 100%. You will have an income surplus of around \$306 per month if James's were to get disabled. Part of the reason that James is covered in the event he needs long-term disability is that his long-term benefits from Andersen are after-tax dollars which means he will be getting those benefits tax-free if he receives them.

### **Option 2 - Increase Amount of Long-Term Disability**

The second option that we will suggest is to increase the amount of long-term disability insurance by buying it through Andersen. This cost will have to be determined after HR responds to James's email on how much extra it would cost to buy more long-term disability. If you decide to choose this option and buy extra and the rate for Andersen is expensive compared to third parties, we will go to a third party to obtain more long-term disability insurance.

### **Alternative - Stephanie increasing amount of Long-Term Disability**

According to our estimates, if Stephanie was the only one to become disabled or during simultaneous disability, there would not be enough income to cover current expenses. A way to fix this is for Stephanie to buy more long-term disability on top of her \$90 extra that she already pays. There would have to be a large increase in long-term disability in order to compensate for Stephanie becoming disabled or simultaneous disability.

## Recommendation

Our recommendation for your long-term disability benefit needs is to just be enrolled into the Andersen long-term disability plan (Option 1). James does not need extra disability at the moment. In the event of Stephanie getting disabled or simultaneous disability, we would like to point out that some of your current expenses will change depending on the type of disability. Expenses that could decrease are car expenses, commuting expenses, professional clothing, and childcare expenses. If whoever gets disabled is still able to work in some capacity, there is an option to get a lower paying job in order to still have income coming in. We would recommend looking into Stephanie's policy with her company and see if she could pay the premiums, you have the cash flow to pay them but we will revisit this once she finds out if it is possible.

Monthly surplus or shortfall during <i>short-term</i> disability (after elimination period)
If the primary client becomes disabled, there is an income surplus = \$585
If the co-client becomes disabled, there is an income surplus = \$722
If both clients become disabled, there is an income shortfall = (\$769)
Monthly surplus or shortfall during <i>long-term</i> disability (after elimination period)
If the primary client becomes disabled, there is an income surplus = \$306
If the co-client becomes disabled, there is an income shortfall = (\$1,050)
If both clients become disabled, there is an income shortfall = (\$2,820)

## Implementation - Short-Term and Long-Term Disability

Who?	James
What?	Enroll into Andersen's Long-Term and Short-Term Disability Insurance
Where?	Andersen
When?	When Andersen's benefits are able to be picked in June 1st until June 15th 2023
Why?	In order to have long-term and short-term disability coverage
How?	<ol style="list-style-type: none"><li>1. Go to UKG Pro and sign in via SSO</li><li>2. Click "Menu"</li><li>3. Click "Manage My Benefits"</li><li>4. Review your profile and shop the benefits for which you are eligible</li><li>5. Click on each plan and select or decline coverage<ol style="list-style-type: none"><li>a. If you do not want to enroll in the coverage, you must decline coverage</li><li>b. You cannot complete the enrollment process until you have enrolled or declined each benefit option</li><li>c. If you leave the enrollment page, click the continue button to pick up where you left off</li></ol></li></ol>

	6. Click “Review and Checkout” when you have completed the enrollment process to submit your elections.
<b>How much?</b>	Short- term: No cost to James Long-term: \$308.76 per year (\$11.88 per pay period)

## Email to HR

To whom it may concern in the Human Resources department:

My name is James Yost and I am a part of the recent merger with Andersen from a previous company. I had a few questions regarding my benefits. While looking at my employee benefits package and checking on my short term disability insurance I see that there is a length of service requirement to get 100% weeks base pay for 25 weeks. Since I have worked at my old company for over 10 years and now transitioning into Andersen, does my service carry over as well? Would I receive the 100% weeks base pay for my short term disability insurance? My last question is regarding the additional long-term disability insurance. If I had decided to buy more long-term disability insurance what would be the cost for the coverage?

Please let me know at your earliest convenience.

Best regards,

James Yost

## Vision

### Current situation

Previously, you have not paid for vision insurance and just have paid out of pocket for expenses. With Andersen’s new benefits there is room to get vision insurance for the whole family.

### Option 1 - Enroll in Vision Insurance

Through your medical plan with Andersen, vision insurance is at no additional cost to you. This is a free benefit that otherwise we would not recommend buying because of the health of your family and your previous expenses for eye care were less than \$350 annually.

### Option 2 - Not Enroll in Vision Insurance

The other option we will present is to not enroll into the vision insurance plan and continue to pay out of pocket for your vision needs.

### Recommendation:

Our recommendation would be to go with option 1 since it is of no additional cost to you and you will end up saving that portion of the \$325 vision and dental annual expense that you spend.

Plan Feature	Benefit Level		Benefit Frequency
	Network Provider	Non-Network Provider	
Eye Exam	Plan pays 100% after \$10 copay	Plan reimburses up to \$50	Every Calendar Year
Eyeglass Lenses (instead of contact lenses) Single Bifocal Trifocal Special Features (anti-reflective coating, tinting)	Plan pays 100% after \$25 copay Plan pays 100% after \$25 copay Plan pays 100% after \$25 copay Plan provides discounts on materials	Plan reimburses up to \$50 Plan reimburses up to \$70 Plan reimburses up to \$90 Not covered	Every Calendar Year
Eyeglass Frames	Plan pays up to \$130 plus 20% of balance	Plan reimburses up to \$98	Every Calendar Year
Contact Lenses (instead of eyeglass lenses)	Plan pays up to \$130 plus 15% of balance	Plan reimburses up to \$130	Every Calendar Year
Contact Lenses (Medically Necessary)	Plan Pays 100%	Plan reimburses up to \$210	Every Calendar Year

As you can see above the plan pays for most expenses with a **copay**<sup>48</sup> for a network provider and for a non-network provider the plan will reimburse you up to a certain amount.

### Implementation - Vision

<b>Who?</b>	James
<b>What?</b>	Enroll into Andersen's Vision Insurance
<b>Where?</b>	Andersen
<b>When?</b>	When Andersen's benefits are able to be picked in June 1st until June 15th 2023

<sup>48</sup> Co-pay: a contribution made by an insured person toward the cost of medical treatment or other services.

<b>Why?</b>	In order to have free vision insurance and lower expenses
<b>How?</b>	<ol style="list-style-type: none"> <li>1. Go to UKG Pro and sign in via SSO</li> <li>2. Click "Menu"</li> <li>3. Click "Manage My Benefits"</li> <li>4. Review your profile and shop the benefits for which you are eligible</li> <li>5. Click on each plan and select or decline coverage <ol style="list-style-type: none"> <li>a. If you do not want to enroll in the coverage, you must decline coverage</li> <li>b. You cannot complete the enrollment process until you have enrolled or declined each benefit option</li> <li>c. If you leave the enrollment page, click the continue button to pick up where you left off</li> </ol> </li> <li>6. Click "Review and Checkout" when you have completed the enrollment process to submit your elections.</li> </ol>
<b>How much?</b>	There is no cost associated with this recommendation

## Dental

### Introduction:

Through your Andersen benefits they have a **Preferred Provider Organization (PPO)**<sup>49</sup>. This means if you go to a dentist in their network the plan pays all or a portion of eligible expenses. If you end up going to someone out of network then the plan still pays a portion of eligible expenses it would just be a higher out of pocket cost to you.

### Current Situation:

Previously, you have not paid for dental insurance. This previous year you spent a total of \$325 annually for dental and vision so it does not take up much of your costs. The concern is that Dr. McCoy seems to think that braces are likely for both children when you went in for the consult appointment. Braces can cost between \$3,000 - \$10,000 per child.

### Option 1 - Premium Option

The premium option for dental insurance costs \$37.01 and will automatically be taken out of James's paycheck each pay period. The deductible on this plan is \$75 for families. The best part of this plan is that orthodontia (braces) is a 60% cost after your deductible with a \$1,500 lifetime maximum per person that insurance will pay. Since braces can cost at least \$3,000 per child, you

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<sup>49</sup> Preferred Provider Organization (PPO): A type of health plan that contracts with medical providers, such as hospitals and doctors, to create a network of participating providers.



will have the first \$1,500 paid for each child that ends up getting braces. When Amelia and Ben get braces and you are billed we will revisit and come up with a strategy on how to efficiently pay for braces. In regards to other services like basic services and preventative care, you would meet the deductible quickly and have 80% of the cost covered for basic services and 100% covered for preventative care for when either of you go to the dentist.

### **Option 2 - Basic Option**

Under the basic option for dental insurance the premium is \$15.00 that will be taken out of James's paycheck each pay period. The deductible is higher on this plan at \$150 for families. The annual maximum benefit is lower at \$1,000 per person and a lifetime maximum of \$1,000 per person for the orthodontic coverage with 50% of costs after the deductible is met. In regards to other services like basic services and preventative care, you would meet the deductible quickly and have 60% of the cost covered for basic services and 100% covered for preventative care for when either of you go to the dentist.

### **Alternative - Do not enroll in dental insurance**

If you would like to continue with what you are currently doing and not be covered by dental insurance you can expect to be adding around \$3,000-\$10,000 per child when they get braces put on depending on the complexity of their case. You would pay all of these expenses out of pocket along with the share of \$325 annual expense you are already paying for dental visits.

### **Recommendation:**

Our recommendation is to go with Option 1 because of the cost savings while your children are in braces. Braces are a big expense to a family so minimizing that cost as much as possible is our goal. Under this option we are recommending you enroll in the Employee + Family Premium Option. The cost is \$37.01 each pay period (\$962.26 per year).

Plan Feature	Premium Option	
	Network	Non-Network*
Annual Deductible Individual Family	\$25 \$75	\$25 \$75
Annual Maximum Benefit	\$2,000 per person	
Preventive Care	100%	100% of R&C
Basic Services	80% after deductible	70% of R&C after deductible
Major Services	60% after deductible	50% of R&C after deductible
Orthodontia	60% after deductible	
Lifetime maximum	\$1,500 per person	

Through this plan, if you receive care from a non-network dentist, the plan will pay the "Reasonable and Customary" (R&C) rate for similar services in your geographical region. If a non-network dentist charges more than the R&C rate, you will be responsible for your portion of the cost of services, plus any amount in excess of the R&C rate. If you have any questions regarding the amounts that the plan will pay for basic or major services, you can contact MetLife through their website [www.metlife.com/dental](http://www.metlife.com/dental) or 800.942.0854, your group number is 139865 and request a "pre-determination of benefits".

## Implementation - Dental

<b>Who?</b>	James
<b>What?</b>	Enroll into Andersen's Dental Insurance
<b>Where?</b>	Andersen
<b>When?</b>	When Andersen's benefits are able to be picked in June 1st until June 15th 2023
<b>Why?</b>	In order to have coverage for dental expenses including braces in the foreseeable future
<b>How?</b>	<ol style="list-style-type: none"> <li>1. Go to UKG Pro and sign in via SSO</li> <li>2. Click "Menu"</li> <li>3. Click "Manage My Benefits"</li> <li>4. Review your profile and shop the benefits for which you are eligible</li> <li>5. Click on each plan and select or decline coverage <ol style="list-style-type: none"> <li>a. If you do not want to enroll in the coverage, you must decline coverage</li> </ol> </li> </ol>

	<ul style="list-style-type: none"> <li>b. You cannot complete the enrollment process until you have enrolled or declined each benefit option</li> <li>c. If you leave the enrollment page, click the continue button to pick up where you left off</li> </ul> <p>6. Click “Review and Checkout” when you have completed the enrollment process to submit your elections.</p>
<b>How much?</b>	\$37.01 each pay period (\$962.26 per year)

## AD&D

For this option we are confident that the amount we have set up for you with life insurance will be enough to support your family in case of death. On the other side of it, if there is accidental dismemberment then the disability insurance that we are about to enroll you in will help with that as well if one or both of you are not able to work anymore. Through Andersen’s benefits they have AD&D insurance equal to two times your base salary in the case of a death caused by an accident and dismemberment. If you lose a limb or your eyesight or hearing in an accident, you will receive a percentage of your benefit amount.

## Long Term Care (LTC)

Through Andersen you can obtain Long Term Care insurance. We recommend waiting on this insurance because you both are young and healthy and long term care insurance is usually purchased around 55 - 60 years old. I think we should continue to monitor both of your health and revisit this.

## Ancillary Benefits

Andersen offers multiple other benefits that you can elect to enroll in. In a summary table below are our recommendations on which ones to enroll in when the open enrollment period starts in June.

## Enroll

<b><i>Benefit</i></b>	<b><i>Why?</i></b>	<b><i>What do you need to do?</i></b>	<b><i>(Cost)/Benefit?</i></b>
Identity Guard	Low cost, and protects against Identity Theft	Follow online enrollment process below	(\$9.00) per month/ (\$108) per year
beFIT - Wellness Program	Use your wellness to your advantage and get a benefit to offset other costs	Follow online enrollment process below and obtain 10,000 steps per day 6 days a week	\$50 per month/ \$600 per year

## Do Not Enroll

<b><i>Benefit</i></b>	<b><i>Why Not?</i></b>	<b><i>(Cost)/Benefit?</i></b>
Employee Assistance Program	No current need	\$0
One Medical Group Membership	No current need	\$0
Commuter Benefits	James works from home	\$0
Gradifi Student Loan Paydown	Keeping current plan on paying down student loans	\$0
Fertility Assistance	No plan for future children	\$0
Adoption Assistance	No plan for adopting	\$0
Milk Stork	No current need	\$0
Bright Horizons - Dependent Care Program	No current need	\$0
Pet Insurance	Cost exceeds current pet expense needs	\$0
Travel Assistance	No current need	\$0

Auto and HomeOwners Insurance Discount Program	Obtaining auto and home insurance from StateFarm	\$0
MetLife Legal Plans	Obtaining services from different parties	\$0
myRecognition Program	No current need	\$0
Long-Term Care (LTC)	No current need, reference LTC section in chapter	\$0

## Implementation - *Completing the Online Enrollment Process*

1. Go to UKG Pro and sign in via SSO
2. Click "Menu"
3. Click "Manage My Benefits"
4. Review your profile and shop the benefits for which you are eligible
5. Click on each plan and select or decline coverage
  - If you do not want to enroll in the coverage, you must decline coverage
  - You cannot complete the enrollment process until you have enrolled or declined each benefit option
  - If you leave the enrollment page, click the continue button to pick up where you left off
6. Click "Review and Checkout" when you have completed the enrollment process to submit your elections

Your dependents are also eligible for coverage under many of the plans. You need to provide documents to verify your dependents before they can be enrolled in any coverage. These documents include marriage license or certificate for spouse and birth certificate or birth notification for children.

## Monitoring

Keeping up to date with your benefits is a big priority for us and we want to make sure you are in the best position that you can be in for your family. Please keep us up to date if anything changes healthwise with anyone in your family including Elizabeth. Also, we will be needing an update on braces cost, the response from Andersen HR, what Stephanie's long-term disability policy says about paying her own premiums, and the long-term care insurance topic.

# Charity Planning

<b>Cash Flow and Net Worth Analysis</b>
<b>Life Insurance Planning</b>
<b>Property and Casualty Insurance Planning</b>
<b>Retirement Planning</b>
<b>Investment Planning</b>
<b>Debt Planning</b>
<b>Education Planning</b>
<b>Employee Benefits Planning</b>
<b>Charity Planning</b>
<b>Estate Planning</b>
<b>Tax Planning</b>
<b>Implementation and Monitoring</b>

## Introduction

Charity is an important goal for many clients throughout their life. This goal can be met by giving money, volunteering your time, or even donating old clothes. Our understanding is that an important goal for you all is to donate money to a foundation of your choice. We admire your philanthropic endeavors and look forward to assisting you with this goal!

## Assumptions

1. The Yost's current federal tax rate is 24%.
2. The Yost's current state and local tax rate is 5.75%.
3. Without reallocating James's Inherited IRA, the account earns an average of 10% each year.

## Current Situation

You currently give to charity on a regular basis and look for opportunities to be generous around the holidays. You currently give \$7,500 annually to charities such as American Heart, American Cancer, Red Cross, Church, and Universities. This is an awesome way to give back to your community!

When James's father passed away earlier this year, James was named the beneficiary of his father's IRA. This makes it an inherited IRA. Billy turned 71 years old in 2022 and James is currently 44 years old. Because James is more than 10 years younger than his father, **he must follow the "10 year rule" and liquidate the account by the end of the 10th year following the year of the death of the IRA owner.** In total, the inherited IRA is worth \$117,140. We believe the money from this account would be a great way to fulfill your charitable goals and leave behind a legacy for Billy.

It is also important to note that because this is a non-spousal inherited IRA, you are not allowed to rollover into your own IRA. Therefore, you must liquidate the account.

We recommend that you do not withdraw funds from this inherited IRA all at once because this will create a huge tax bill for you. The total amount (\$117,140) will be income to you, therefore, taxed at the ordinary income rate. This distribution will push you into the 32% federal tax bracket. Unfortunately, no matter how you distribute this money, you will be required to pay taxes. There is no way to avoid this.

Instead, we recommend you withdraw from the inherited IRA throughout the 10 years. You will pay tax on this distribution. Then you can use after tax dollars to fund any charitable goal.

**Option 1-** Distribute money from James's Inherited IRA over 10 years and donate money to a Donor Advised Fund.

During our previous meeting, James asked for our thoughts on utilizing a donor advised fund to achieve your charitable goal. A donor advised fund is essentially a charitable investment account for the sole purpose of supporting charitable organizations. Once you, the donor, contributes to a donor advised fund, the organization has legal control over these funds. However, you maintain privilege over the investment choices and distribution of this fund. Here are some more important characteristics of donor advised funds (DAFs):

- Contributions to DAFs are irrevocable, meaning assets cannot be taken back once they are gifted.
- Although donors maintain advisory and grantmaking privileges for their DAF, once assets are gifted to the account, they belong to the sponsoring organization.
- You can deduct up to 60% of your adjusted gross income for cash contributions.

We have considered distributing money out of James's Inherited IRA every year for 10 years, paying tax on this distribution, and contributing the remainder to a donor advised fund.

We have based our calculations on the current allocation of James's Inherited IRA. The 10-year historical average of this portfolio indicates that we will earn an average of 18.45% per year. This is a very extreme assumption, so we will assume the portfolio will earn 10% each year instead.

We recommend you distribute \$16,500 each year from James's Inherited IRA for 10 years. This will ensure you have a balance of \$0 at the end of the 10th year. Remember, the account balance must be zero on the 10th year following Billy's death in accordance with the 10-year rule. We have demonstrated distributions in the table below:

Year	Account Balance	Distribution	Remaining
0	117140	16500	100640
1	110704	16500	94204
2	103624.4	16500	87124.4
3	95836.84	16500	79336.84
4	87270.524	16500	70770.524
5	77847.5764	16500	61347.5764
6	67482.33404	16500	50982.33404
7	56080.56744	16500	39580.56744
8	43538.62419	16500	27038.62419
9	29742.48661	16500	13242.48661
10	14566.73527	14566.73527	0

When you distribute \$16,500 from the account, you will have to pay federal and state taxes on this distribution at the ordinary income rate. You are currently in the 24% federal tax bracket and the 5.75% state and local tax bracket. In total, you will pay \$4,908.75 in taxes when you distribute \$16,500. This leaves you with \$11,591.25. We also suggest that you keep \$2,336.64 as income to you. We think this would be a great way to fund vacation for your family in the near future. After considering taxes and extra income kept, you will have \$9,254.61 left over to contribute to charity. Then you can contribute this cash to a donor advised fund. If you contribute the rest of this amount to charity, in addition to the current \$7,500, you will be able to take a charitable deduction worth \$16,754.61. This will help offset your tax of \$4,908.75.



In total, your total tax liability will increase by \$1,739 each year for 10 years. (Your current tax liability is \$29,800. After, your tax liability would be \$31,539).

Remember, this income distribution and tax consequence will happen each year for 10 years. The 10th year of distribution will provide a smaller tax liability because you will distribute less in that year. By the end of the 10th year, you will have kept \$25,703.04 for yourself. You will have contributed \$100,442.59 in cash to a donor advised fund. This satisfies your goal to donate \$100,000 to charity.

There will be a small fee associated with a donor advised fund. These fees range depending on which custodian you choose. Most fees are 1% of assets within the fund. This would cost you around \$1,000 for a \$100,000 contribution.

If you chose to contribute to a donor advised fund, you will be able to name as many charities as you would like. You will also have full discretion over investment and distribution choices within the donor advised fund. You can take as much or as little risk as you want. We will monitor the investment choices within the donor advised fund and the frequency of distributions to your chosen charitable organization. This will be at your discretion. Because you are in no rush to pick your charitable organization, you could even leave this choice to Amelia and Ben later.

#### **Implementation – Equal Distributions and Donor Advised Fund**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Charitable Giving
<b>Where?</b>	James's Inherited IRA and Donor Advised Fund
<b>When?</b>	Distribute money each year for 10 years
<b>Why?</b>	The IRS states you must follow the 10-year rule and this will help you achieve your charitable goals.
<b>How?</b>	Sign an IRA distribution form and elect to withhold federal and state taxes from the Inherited IRA distribution. Then open a Donor Advised Fund and contribute the rest of the money (after tax) to this account. You have taken steps to soften the blow of next April 15 by withholding state and federal taxes. So although your tax liability increases, you will have already withheld some taxes from the IRA and hopefully this will lessen the amount you have to owe on April 15.
<b>How much?</b>	This will increase your current tax liability by \$1,739 each year for 10 years, plus DAF fees which are about 1% of assets within the fund.

**Option 2** - Distribute money from James's Inherited IRA all at once and donate money to Donor Advised Fund.

We have considered distributing all the money out of James's Inherited IRA at once, paying tax on this distribution, then contributing the remainder to a donor advised fund.

First, we need to distribute all the money out of James's Inherited IRA. This will equal \$117,840. This amount is included in your taxable income, which pushes you into the 32% federal tax bracket. Then we will pay federal and state taxes on this distribution at the ordinary income rate. Your marginal tax rate is 32% and your state and local tax is 5.75%. In total, you will pay \$43,889.47 in taxes this year. After paying this tax, you will have \$73,250.53 left over to contribute to a donor advised fund. This is also the amount you will be able to deduct from your taxes. A lump sum distribution increases your tax liability to \$10,534 this year only. (Your current tax liability is \$29,800. After, your tax liability would be \$40,334.)

There are many downsides to this option.

1. You will have a huge tax liability this year.
2. You will only have \$73,250.53 to contribute to a donor advised fund.
3. Your Inherited IRA will not be able to grow over the 10 years, missing out on any gain within the account.

**Implementation – Lump Sum and Donor Advised Fund**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Charitable Giving
<b>Where?</b>	James's Inherited IRA and Donor Advised Fund
<b>When?</b>	Within 10 years (calculations are based on today)
<b>Why?</b>	The IRS states you must follow the 10-year rule and this will help you achieve your charitable goals.
<b>How?</b>	Sign an IRA distribution form and elect to withhold federal and state taxes from the Inherited IRA distribution. Then open a Donor Advised Fund and contribute the rest of the money (after tax) to this account. You have taken steps to soften the blow of next April 15 by withholding state and federal taxes. So, although your tax liability increases, you will have already withheld some taxes from the IRA and hopefully this will lessen the amount you have to pay on April 15.

<b>How much?</b>	This will increase your current tax liability by \$10,534 this year only, plus DAF fees which are about 1% of assets within the fund.
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**Option 3-** Distribute money from James’s Inherited IRA over 10 years and increase cash donations to charities rather than contributing to a donor advised fund.

The IRS allows individuals to deduct cash contributions to charity up to 60% of your AGI. Therefore, you could increase your annual charitable donation. Depending on your tax situation, it may or may not be in your best interest to deduct these contributions when you file your taxes. Only those who itemize their deductions can deduct a charitable gift. For most people, claiming the charitable deduction just doesn’t make sense, as the amount gifted is less than you get by using the standard deduction. Because you all itemize, you will benefit from increasing your charitable contributions.

Like we mentioned above, you can distribute money out of James’s Inherited IRA every year for 10 years. Using the name numbers as above, this would leave you \$9,254.61 after tax to spend however you want. We still recommend that you keep \$2,336.64 as income to you. If you contribute the whole amount to charity, in addition to the current \$7,500, you will be able to take a charitable deduction worth \$16,754.61 for charitable contributions. This would increase your tax liability by \$1,739 for the next 10 years because of the withdrawal from James’s Inherited IRA.

This option would also allow you to contribute \$100,442.59 to a charity of your choice.

For more information on tax analysis, please reference the Tax Chapter.

### Implementation – Cash Gift

<b>Who?</b>	James and Stephanie
<b>What?</b>	Charitable Giving
<b>Where?</b>	Distribute from James’s Inherited IRA
<b>When?</b>	Distribute money each year to fund this goal (must be liquidated by the 10th year following the death of Billy)
<b>Why?</b>	The IRS states you must follow the 10-year rule and this will help you achieve your charitable goals.

<b>How?</b>	Sign an IRA distribution form and elect to withhold federal and state taxes from the Inherited IRA distribution. Then contribute the rest of the money (after tax) to a charity of your choice.
<b>How much?</b>	This will increase your current tax liability by \$1,739 each year for the next 10 years.

## Alternatives

### Alternative 1-

You can also contribute less than the suggested amount each year. Instead, you could contribute 50% of the amount taken out of the Inherited IRA. This number can change depending on what you are most comfortable with. However, if you donate less to charities, you will have a smaller deduction and a greater tax liability.

### Alternative 2-

Contribute more money to charities. You are eligible to deduct up to 60% of your AGI. This means you are able to deduct a total of \$136,801 for cash contributions to charities. If you are looking for ways to minimize your tax liability even more, this would be a great alternative to consider.

## Recommendation

We recommend that you use James's Inherited IRA to fund your charitable goals. We also recommend that you withdraw money from James's Inherited IRA in equal parts over 10 years. A lump sum distribution would create a huge tax bill for you this year and push you into the 32% marginal tax bracket. We suggest you keep \$2,336.64 from the withdrawal every year to put towards a goal of your choice. We recommend using it to fund your vacation goals!

We also recommend that you pick Option 3 and distribute money from James's Inherited IRA over 10 years and increase cash donations to local charities rather than contributing to a donor advised fund. Because this is a donation to charity, you are eligible for the unlimited charitable deduction. However, you cannot deduct up to more than 60% of your AGI.

The difference between Option 1 and Option 3 is that you must pay donor advised fund fees in Option 1. However, there are no additional fees other than paying tax related to Option 3. Therefore, Option 3 is the cheapest option.

The biggest benefit to using a donor advised fund is to maintain control over the investment and distribution choices. If you are unsure where to donate money, and want to leave this choice to your kids, then a donor advised fund would be a great option. There will be a small fee associated with a donor advised fund. These fees range depending on which foundation you choose, but most fees are about 1%. This would cost you around \$10,000 for a \$100,000 contribution.

## **Monitoring**

We will monitor this process by reminding you each year to distribute money from James's Inherited IRA. We will also evaluate the account balance each year depending on market conditions. We must make sure the account is liquidated by the end of the 10th year following Billy's death. We can also reallocate if needed.

If you decide to increase your charitable deductions, we will monitor that this amount does not exceed 60% of your AGI for tax purposes.

# Estate Planning

Cash Flow and Net Worth Analysis
Life Insurance Planning
Property and Casualty Insurance Planning
Retirement Planning
Investment Planning
Debt Planning
Education Planning
Employee Benefits Planning
Charity Planning
Estate Planning
Tax Planning
Implementation and Monitoring

## Introduction

**Estate planning**<sup>50</sup> is one of the last steps in your financial plan. I know it seems like a long way off, but taking actions now can ensure that your estate is disposed of in the way you want: with maximum privacy and minimal taxes. We also want to help you be prepared at the worst possible time: the premature death of one or the both of you.

## Goals

The first goal is, in the event of the premature death of either of you, you would like to ensure that the children's financial welfare will be taken care of, and their lives will not dramatically change.

The second goal is the selection of a guardian considering the changed circumstances since the selection of a guardian in your first will. (They would need a guardian until each has reached age eighteen and able to make choices about their futures).

The third goal is to provide an orderly disposition of your estate, while minimizing taxes and maximizing privacy (keeping assets out of the probate process).

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<sup>50</sup> "Estate planning" is the process of accumulation, management, conservation and transfer of wealth considering legal, tax and personal objectives. It is financial planning for our inevitable death. The goal is effective and efficient transfer of assets.

## Assumptions

1. You are both currently healthy, with no known health conditions affecting longevity.
2. There are some longevity issues and concerns on both sides of the extended family.
3. You live in a small town and want to avoid the public scrutiny that comes with probate.
4. In the case of death, the surviving spouse will invest any cash settlements in a moderately conservative portfolio before and after retirement. In the event of death, you would like this assumption to supersede all other rate of return assumptions used in other calculations.
5. We are to assume a 24% tax bracket in retirement, unless brackets continue to climb.
6. The TCJA may be extended on or before December 31, 2025.

## Current Situation

You have done a great job saving for the future, however, currently you have not fully developed all aspects of your estate plan. That is okay, we are here to help. Together with an estate planning attorney, we will get this all sorted out for you.

You have **sweetheart wills**<sup>51</sup> leaving all assets to each other that were prepared not long after Ameila was born. The wills name Stephanie's older sister, Barbara, as guardian for Amelia. The wills do not provide guardianship for Ben. The wills do not explicitly cover the disposition of many of your accounts/assets.

Stephanie inherited several heirlooms that she wants preserved and passed down to a fourth generation of the family. These include: a sapphire cut ruby ring, an antique china cabinet with full twelve (12) place setting and serving pieces of antique collector's china.

You currently have inadequate life insurance coverage. We have recommended that you change your life insurance coverage. A full explanation can be found in the Life Insurance Chapter. That chapter sets forth how we believe you can obtain adequate life insurance coverage to ensure the children's financial welfare will be taken care of, and their lives will not dramatically change.

## The risk of premature death

You have some longevity issues on both sides of the family. Stephanie's parents both died in their sixties from cancer. James's dad, Billy, just died unexpectedly at 71.

## The Estate Tax

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<sup>51</sup> "Sweetheart wills" are wills where one spouse leaves all of their assets to the other spouse.

Currently, each of you can pass/gift \$12.92m **tax free**. This means that you can pass \$25.84m combined tax free. Moreover, the amounts you pass to each other as husband and wife are tax exempt without regard to the individual \$12.92m limit. Transfers to spouses or charity are tax free and do not count against the combined \$25.84m limit. That amount of tax-exempt estate/gift, \$12.92m each, is raised for inflation periodically.

Our projections of your remaining estate vary from \$656,031 to \$2.8 million, far under the amount that would be subject to estate tax. **Quite simply, under current law, it is highly unlikely you would ever pay any estate tax.**

There are some important caveats to the analysis above. The \$12.92m/\$25.84m tax exempt estate/gift tax amounts are the result of a law called the **TCJA**<sup>52</sup>, which became law in 2017 and is temporary.

### **TCJA and what it means to you**

The \$12.92m/\$25.84m lifetime estate and gift tax provisions are set to sunset (expire) on December 31, 2025. The individual lifetime exemption amount will revert to around \$6.8m, \$13.6m combined. As you can see, based upon our calculations, even if the TCJA sunsets and the law reverts to the old limits, you should be under the combined limit and you should be able to give your estate tax free.

The TCJA also contains what is called an anti-clawback provision. If you make gifts before December 31, 2025, and the TCJA sunsets, the IRS will not seek to clawback (tax) gifts nor the unused portion of the deceased spouse unused exemption, DSUE.

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<sup>52</sup> "TCJA" is the Tax Cuts and Jobs Act of 2017.



### Current titling of assets

One of the estate planning goals you have set forth is the avoidance of taxes and avoidance of probate. One of the ways we will accomplish these goals is titling the assets in the most advantageous way possible. We can also use **payable on death (POD)**<sup>53</sup> or **transfer on death (TOD)**<sup>54</sup> designations to achieve transfers outside of probate.

Set forth below is a table containing your current assets, their titling and beneficiary (**Who receives it?**). The assets containing “No” in the fourth column are those that could benefit from a retitling (and a review/change of the POD/TOD designations).

Asset	Current Value	Owner	Titled to minimize tax and remove from probate	Who receives it?
Savings Account	\$9,800	Joint	Yes	The other spouse
Checking Account	\$6,500	Joint	Yes	The other spouse
Money Market Account	\$8,600	Joint	Yes	The other spouse
Limited Access high yield account	\$13,800	Amelia	NO? UGMA or UTMA?	?
Home	\$375,000	Joint, TIC	Yes	The other spouse
Home furnishings	\$75,000	Joint	Yes	The other spouse
Acura	\$23,500	JTWROS	Yes	The other spouse
Dodge Caravan	\$8,500	JTWROS	Yes	The other spouse
Stephanie diamond ring and matching	\$10,750	Stephanie	No	Stephanie’s legatee, James, under the current sweetheart

<sup>53</sup> “Payable on death” is a designation attached to an account or policy that transfers the account or policy proceeds to the individual designated (payee). Payable on death clauses are usually used with bank accounts, savings accounts, money market accounts.

<sup>54</sup> “Transfer on death” is a designation attached to an investment account (brokerage, stocks, bonds), that transfers the asset to the transferee on death.

band				will
James jewelry	\$3,500	James	No	James's legatee, Stephanie, under the current sweetheart will
China Cabinet	\$1,000	Stephanie	No	Stephanie's legatee, James, under the current sweetheart will
Antique place settings	\$1,500	Stephanie	No	Stephanie's legatee, James, under the current sweetheart will
Golf Clubs	\$2,600	Joint	Yes	The other spouse
Boat	\$11,500	JTWROS	Yes	The other spouse
Non-Retirement Assets	\$81,000	Joint	Yes	The other spouse
James Retirement Assets	\$366,600	James	No	Stephanie, in probate, through the sweetheart will
James Inherited IRA	\$117,140	James	No	Stephanie, in probate, through the sweetheart will
Stephanie's 401(k)	\$61,100	Stephanie	No	James, in probate, through the sweetheart will
Stephanie's Traditional IRA	\$76,500	Stephanie	No	James, in probate, through the sweetheart will
Stephanie's NUCO Fixed annuity	\$145,000	Stephanie	No	James, in probate, through the sweetheart will
Amelia 529	\$80,300	Stephanie	No	James, in probate, through the

				sweetheart will
<b>Ben 529</b>	\$65,600	Stephanie	<b>No</b>	James, in probate, through the sweetheart will

## Option 1

### A. Estate Tax

We believe that at your current rate of savings, current assets and current salary growth, you are unlikely to suffer the “death tax”, i.e. have the federal estate tax imposed. Virginia imposes no state estate tax.

### B. Wills and Guardian Designations

With regard to your wills, we recommend that you have new ones drawn up. So much has changed since you obtained the sweetheart wills shortly after Amelia was born.

Guardians are those adults who will have legal custody and charge of your children should both of you pass away before they reach the age of majority (18). Please consider naming a new guardian for Amelia and Ben in the event the worst happens. Although Elizabeth lives nearby and would undoubtedly care for them, she should not have this imposed upon her unless she wants it and there is a detailed discussion about it. You now have good friends, with children of similar ages, which have very similar views on parenting and life goals. Living with them could cause less upheaval in the kids’ lives, should the unthinkable happen to you. You should consider these new good friends as potential guardians and discuss it with them. If they agree, you should designate them Amelia’s guardian until she turns 18, and also Ben’s guardian until he turns 18.

### C. Titling of Assets, Payable on Death Beneficiaries

With regard to avoiding probate and taxes, the assets that have “no” in the fourth column of the chart above need to be re-titled or have the beneficiary designations changed to reflect your current wishes.

The first group of assets, Stephanie’s rings, James’s jewelry, the china cabinet and antique place settings are currently titled to go through probate. A simple title document naming you both as

Joint Tenants with Right of Survivorship (JTWROS) with regard to these assets would remove them from probate. Because they are going to be jointly titled with your spouse, there are no income or gift tax consequences.

The next group of assets, your retirement assets, cannot be retitled jointly to remove them from the probate estate. They can, however, be passed by beneficiary (TOD) designations. Please ensure to designate each other as the beneficiary on each of your retirement accounts. Please ensure that the children's ILITs are named the contingent beneficiaries, in the event one of you predeceases the other while the children are still minors. These will keep the assets out of probate. If either one of you obtains the retirement assets of the other, there will not be any tax consequences because you are passing it between spouses. There will be taxes due when you start to liquidate these retirement assets.

Amelia's limited access account needs to be retitled. Amelia is listed as the owner. Minors cannot "own" accounts. If Stephanie is the "owner", then if Stephanie dies, it will go into her estate and pass to Stephanie's legatees. This cannot be the result intended. There must be an UGMA or UTMA designation for Amelia's account.

Finally, with regard to the home, we need to clarify if the home is held in joint tenancy with right of survivorship or if it is held in a tenancy in common. If it is held in tenancy in common, we want to retitle it to joint tenancy with right of survivorship. Although retitling it as a tenancy by the entirety would protect the home from claims of the one spouse's creditors, it would also guarantee that the home would be disposed of in probate for the last spouse to pass. Titling it as a joint tenancy (WROS) would automatically pass it from the deceased spouse to the living spouse without inclusion into the probate estate (and probate court).

For any account that has a beneficiary designation, you will also need to name contingent beneficiaries in event of simultaneous death. It does happen: spouses pass away at the same time. If you name contingent beneficiaries a trust for the benefit of Amelia and Ben, with Elizabeth as trustee. It only must go until they are 21, 2034 (ben).

#### **D. Life Insurance Beneficiary Designations, Indicia of Ownership and ILITs**

In the Life Insurance Chapter, we have made certain recommendations. You need to make sure to name each other as the primary beneficiary on your life insurance policies. You also need to name contingent beneficiaries just in case one of you cannot act as a beneficiary.

Please do not name your children as beneficiaries at this time. Legally, minors cannot hold money on their own. If your children were named as beneficiaries and were still under the age of 18 when the insurance policy paid out, there would be difficulties.

Your current whole life policies have James and Stephanie as both the owner and the insured of each of those policies. For the new policies, you must also make sure that all indicia of ownership is removed from each policy. Here is what we mean: each policy should be owned by the other spouse with no indicia of ownership. Neither spouse can retain the right to designate beneficiaries, borrow from the policy, the right to assign it, or the right to retain any cash value.

#### **E. End of Life, Incapacitation and Side Letter Documents**

An attorney needs to be hired to draft your incapacitation and end of life documents, including durable powers of attorney for each of you and medical powers of attorney for each of you naming the other as the power holder.

Finally, you need to each draft a side letter of instruction. These letters contain your wishes after you die. They contain things like your funeral plans, the location of wills, trust and other estate documents, instructions for care of pets, contact information on debts, information about your digital assets and a list of professionals you work with like attorneys, accountants, and financial planners (us). They are not legally binding. Nonetheless, it may be helpful to have an attorney draft this while he or she is also drafting the new wills and ILITS.

#### **F. Digital Assets**

This is a relatively new area of planning. We need to plan for the orderly access and transfer of digital assets. There are a variety of companies that provide this service. One example is Last Pass. You can obtain a joint account at [lastpass.com](https://lastpass.com). The cost for the family plan is \$4 a month.

### **Option 2**

#### **A. Wills and Guardian Designations**

Amelia is responsible and you believe she would look after Ben in the event you two could not. Another option with respect to guardian designations is that you could name Elizabeth the guardian until Amelia turns 18 and then make her the guardian of Ben. This would place a lot of

burden on Amelia, as she could be Ben's guardian for a significant period of time while she is still young herself.

## **B. Titling of Assets, Payable on Death Beneficiaries**

The first group of assets, Stephanie's rings, James' jewelry, the china cabinet and antique place settings could be disposed of by will to each other and left in place to go through probate. There will be no tax consequences because you are spouses. These assets would go through probate, but the other spouse will have possession of them during this time and it is difficult to see how allowing these assets to be probated will expose you to scorn or opprobrium from town residents.

The next group of assets, your retirement assets, could be left to pass through the probate estate to each other. They can be passed to each other by each other's will. Although the assets will pass via will, there will not be any tax consequences because you are passing it between spouses.

With regard to Amelia's limited access account, a trust could be established with one (or both or you) as trustees, and an UGMA account for Amelia as the beneficiary. You would have to name contingent trustees on the trust and contingent beneficiaries on the UGMA account.

For any account that has a beneficiary designation, you will also need to name contingent beneficiaries in event of simultaneous death.

## **Alternatives**

Please remember that in our calculations, based upon the known inputs now, you will most likely not have to pay estate tax. There are several ways to further reduce your estate if you are worried about estate taxes being imposed.

**Alternative 1.** Further reducing the size of the gross estate by the annual exclusion amount, currently \$17,000. As you get closer to retirement and your income allows for it, you can give annual gifts in the amount of \$17,000 to as many people as you like. This \$17,000 will be indexed over time and will allow you to give more and more, further reducing the size of your estate.

**Alternative 2.** Charitable giving. We have an entire chapter on charitable giving. We mention it here to say that you can reduce your taxable estates by giving to charity, either at death or now. Please review the Philanthropic chapter for more details.

**Alternative 3.** You will be allowed to reduce your taxable estate by amounts used for final expenses and administration of the estate. These include \$30,000 for final debts (not the mortgage), \$7,500 for final illness costs, \$12,000 for funerals, \$3500 for estate administration costs; \$12,000 for funeral expenses and \$13,500 for executor fees. These are the fees now, they are subject to an inflation rate of 3% annual growth.

**Alternative 4.** *Inter vivos* trusts. You can set up an inter vivos (living) trust now, and begin placing assets into it. You can make each spouse the beneficiary of the other and the children contingent beneficiaries. The assets will grow inside of the trust. When you pass, this trust becomes irrevocable and can be used to benefit the other spouse and/or the children.

## Recommendations

### 1. Wills

We recommend you engage an attorney to have new wills drawn up that incorporate all the changes in your lives over the last ten years, including but not limited to: new guardian designations and explicit dispositions of property.

#### Implementation

<b>Who?</b>	James and Stephanie
<b>What?</b>	Engage a Virginia licensed attorney to draft new wills
<b>Where?</b>	Southwest Virginia
<b>When?</b>	By August 1, 2023
<b>Why?</b>	The guardian designations are no longer applicable; since your last will you have had another child that needs to be provided for; your assets need a more orderly disposition
<b>How?</b>	You need to hire an attorney for this purpose. We are providing three referrals herein: Spicer Law Firm, (540) 552-0007; The Shaheen Firm, (540) 552-3390; and Patrick K. Moore, Esq., (540) 633-1590
<b>How much?</b>	Some preliminary quotes indicate that attorneys charge around \$5,000 for these services

## 2. Retitling of Assets

We recommend you retitle Stephanie's rings, James's jewelry, the china cabinet and antique place settings, and James's record collection as Joint Tenants With Right of Survivorship to remove these assets from the probate estate and process.

We recommend that you re-title the house to make it explicit that it is a joint tenancy with the right of survivorship.

### Implementation - Retitle of Assets, Title document.

<b>Who?</b>	James and Stephanie
<b>What?</b>	Retitle rings, jewelry, china, records collection
<b>Where?</b>	Southwest Virginia
<b>When?</b>	By August 1, 2023
<b>Why?</b>	To remove the assets from probate and have them pass automatically to the other spouse
<b>How?</b>	Although you do not need to hire an attorney for this, we recommend you do so. Please see the referrals above.
<b>How much?</b>	\$5,000 inclusive for all legal work recommended

### Implementation - Retitle of Assets, Home

<b>Who?</b>	James and Stephanie
<b>What?</b>	Retitle home to reflect JTWROS, Not TinC
<b>Where?</b>	Southwest Virginia
<b>When?</b>	By August 1, 2023
<b>Why?</b>	To remove the home from probate and have it pass automatically to the other spouse
<b>How?</b>	We recommend you hire an attorney to do this. Please see the referrals above.



<b>How much?</b>	\$5,000 inclusive for all legal work recommended
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### 3. Designation of beneficiaries

We recommend that you verify and update all beneficiary designations in all retirement accounts and both 529 plans. We recommend that you name contingent beneficiaries on all of the relevant accounts.

On the retirement accounts you **name each other** as beneficiary on the other's retirement accounts. This will remove those accounts from the probate estate. You further name contingent beneficiaries on those accounts, which should be Elizabeth for now (you can change them to Amelia when she turns 18 and Ben thereafter when he turns 18).

On the Virginia 529s, you each name the other as the designated survivor. You would also need to name Elizabeth as the contingent beneficiary on each, in the event of simultaneous death.

You will also need contingent beneficiaries to be named on each account. This is the person who would receive these accounts in the event of simultaneous death of you both. We recommend naming Elizabeth as the contingent beneficiary for now.

#### Implementation - Designation of beneficiaries

<b>Who?</b>	James and Stephanie
<b>What?</b>	Designation of beneficiaries
<b>Where?</b>	In each of the respective accounts
<b>When?</b>	By July 1, 2023
<b>Why?</b>	To have the proper beneficiaries to remove these assets from the probate estate
<b>How?</b>	You need to call or otherwise contact each of the custodians of each account and complete the forms to designate beneficiaries or designated survivors. The VA 529 form can be found here: <a href="https://myaccount.virginia529.com/pls/prod/hwtkefrm.P_DispEForm?for_mname=DESIGNATED_SURV">https://myaccount.virginia529.com/pls/prod/hwtkefrm.P_DispEForm?for_mname=DESIGNATED_SURV</a>
<b>How much?</b>	There should be no cost to do this

#### 4. Life Insurance Beneficiary Designations

We recommend that you verify and update all beneficiary designations for all life insurance policies. We recommend that you name contingent beneficiaries for each policy. We recommend that you do not make the children contingent beneficiaries on either policy. We recommend that you establish ILIT's for each and make the ILITS the contingent beneficiary on each policy.

##### Implementation - Designation of beneficiaries

<b>Who?</b>	James and Stephanie
<b>What?</b>	Designation of life insurance beneficiaries
<b>Where?</b>	In each of the respective accounts
<b>When?</b>	By July 1, 2023
<b>Why?</b>	To have the proper life insurance beneficiaries to remove these assets from the probate estate and minimize taxes
<b>How?</b>	When you purchase your new life insurance policies, make sure that each of you is made the primary beneficiary on the other's policy and then name the ILITS as contingent beneficiaries
<b>How much?</b>	There should be no cost to do this

#### 5. Life Insurance - Indicia of Ownership

We recommend that when you purchase your new life insurance policies, you make sure to remove all indicia of ownership of the insured spouse. This means: each of you should own the policy on the other's life. The insured person should not retain any indicia of ownership on the policy insuring his or her life, which would cause the life insurance proceeds to be included in their taxable estate. A fuller discussion of the parameters of what we recommend is set forth in the Life Insurance chapter. Please read them together.

##### Implementation - Indicia of Ownership

<b>Who?</b>	James and Stephanie
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<b>What?</b>	Removal of any indicia of ownership of life insurance policies from the other's policy
<b>Where?</b>	In each of the respective policies
<b>When?</b>	By July 1, 2023
<b>Why?</b>	To ensure that the life insurance proceeds are not included in the taxable estate of the deceased
<b>How?</b>	When you purchase your new life insurance policies, make sure that each of you is the owner of the policy on the other's life and that no indicia of ownership are retained by the insured
<b>How much?</b>	There should be no cost to do this

## 6. Establish ILITS for each child

We recommend establishing ILITS for each child now. The ILITS would be named as contingent beneficiaries of each of your life insurance policies. In the event of simultaneous death, the proceeds would flow into each of the ILITS. You should name a professional trustee (trust company) as the trustee for each ILIT.

### Implementation - Establishment of ILITs

<b>Who?</b>	James and Stephanie
<b>What?</b>	Establishing ILITs
<b>Where?</b>	At the attorney's office
<b>When?</b>	By July 1, 2023
<b>Why?</b>	To ensure that the life insurance proceeds are not included in the taxable estate of the deceased; to ensure that the life insurance proceeds benefit the people they are supposed to
<b>How?</b>	Discuss this with the estate planning attorney; have he or she draft the ILITs
<b>How much?</b>	\$10,000 inclusive for all legal work recommended

## 7. End of life and incapacity documents

We recommend having durable powers of attorney and medical powers of attorney drafted by an attorney. We recommend having each of you named as the power holder for the other.

We also recommend having durable powers of attorney and medical powers of attorney naming Elizabeth as the power holder in the event that Amelia is under the age of 21 and if she is older than 21, having her be the power holder. These powers should be carefully limited to come into effect only after (a) the death of one spouse, (b) the incapacity of the other and (c) the legal inability for Elizabeth to hold the power (they can be styled as springing powers of attorney, but you need to speak with an attorney about that).

We also recommend that you draft your side letters of instruction. You could have the attorney do it while he or she is drafting the other estate documents, but this is unnecessary and will increase costs.

#### **Implementation - Drafting of Powers of Attorney**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Drafting powers of attorney
<b>Where?</b>	At the attorney's office
<b>When?</b>	By July 1, 2023
<b>Why?</b>	To ensure that each of you has the right to manage the others' affairs in the event of incapacity of the other
<b>How?</b>	Discuss this with the estate planning attorney; have he or she draft the POAs
<b>How much?</b>	\$10,000 inclusive for all legal work recommended

#### **Implementation - Drafting of Side Letters of Instruction**

<b>Who?</b>	James and Stephanie
<b>What?</b>	Drafting side letters of instruction
<b>Where?</b>	At the attorney's office or at home

<b>When?</b>	By July 1, 2023
<b>Why?</b>	To ensure that your initial final wishes are carried out
<b>How?</b>	Discuss this with the estate planning attorney; see if they want to do it, if not, do it yourselves
<b>How much?</b>	\$10,000 inclusive for all legal work recommended

## 8. Digital Assets

We recommend obtaining a password storage service/account from a provider like lastpass.com. This will secure and provide access to each other's passwords. The family plan recommended will allow for up to six users and will store all their passwords.

### Implementation - Securing Digital Assets

<b>Who?</b>	James and Stephanie
<b>What?</b>	Securing digital assets
<b>Where?</b>	At home
<b>When?</b>	By July 1, 2023
<b>Why?</b>	To ensure that the living spouse or family members has access to the digital assets of the deceased
<b>How?</b>	Go to lastpass.com. Sign up
<b>How much?</b>	\$4 a month with lastpass.com

## Monitoring

Some monitoring items that we want to make sure that we stay on top of are:

1. We will monitor the legislative and tax landscape to stay current with the TCJA and any plans to extend it or sunset it.
2. Any life changes require revisiting of the will and its provisions. Please keep us apprised of any life changes so that we can discuss going to the attorney to get the wills changed.
3. Please let us know if you have any difficulty implementing the beneficiary designations with any of the custodians.
4. We will continue to monitor macroeconomic or legal conditions that could affect estate planning.
5. Please update all passwords in lastpass.com or whatever service provider you choose.

# Tax Planning

<b>Cash Flow and Net Worth Analysis</b>
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## Introduction

In this chapter, we focused on a variety of tax planning strategies that will help reduce your overall tax liability. Sometimes, however, taxes are inevitable. We have discussed actions that trigger tax consequences as well. We must offset huge tax bills by lowering your total income, increasing deductions, or taking advantage of certain tax credits.

## Assumptions

1. Marginal tax rate is 24%
2. State and local rate is 5.75%
3. You file Married Filing Jointly
4. You itemize rather than take the standard deduction
5. All investments held within the joint taxable account are long term capital gains

## Current Situation

You have a combined taxable income of \$228,002. You currently itemize on your tax return because your deductions are greater than the standard deduction. You currently deduct mortgage interest (13546), donations to charity (7500), and state and local taxes (capped at 10,000). In total, your federal deduction equals \$31,047. This leaves you with a current federal

tax liability of \$29,800 per year. You currently pay \$10,292 in state and local taxes each year, too.

## **Option 1- With all recommendations from previous chapters for tax projects 2023**

### **1. Life insurance**

#### 1. James's Tax Liability for Surrendering his Whole Life Policy:

Your basis is equal to the amount of premiums you have paid. You currently pay \$1,164 a year in premiums. We needed to determine how long you have had the account for so we assumed you started with a cash value of \$0 (PV) and ended with a cash value of \$9,950 with a growth rate of 3% annually. We then solved for the number of years and concluded that you have had the policy for 7.72 years. This means that you have paid \$1,164 for 7.72 years for a total of \$8,986. This is your basis. Your cash value is currently worth \$9,950 minus your basis of \$8,986. This means you have to pay taxes on your \$964 gain at your ordinary rate.

#### 2. Stephanie's Tax Liability for Surrendering her Whole Life Policy:

Your basis is equal to the amount of premiums you have paid. You currently pay \$1,020 a year in premiums. We needed to determine how long you have had the account for so we assumed you started with a cash value of \$0 (PV) and ended with a cash value of \$9,650. This account grew at 3%. We then solved for the number of years and concluded that you have had the policy for 8.45 years. This means that you have paid \$1,020 for 8.45 years for a total of \$8,619. This is your basis in the policy. Your cash value is currently worth \$9,650 minus your basis of \$8,619. This means you have to pay taxes on your \$1,031 gain at your ordinary rate which we assume to be 24%. Your tax bill increase will be reflected in your income tax section of your financial plan.

When you surrender your whole life policy, you will receive \$19,600 from the cash value. However, you will be required to pay taxes on \$1,995 (\$964+\$1,031). Everything else is a return of basis and will be distributed to you tax free. Again, this is a rough estimation. Please email us your policy illustration for a more accurate calculation.

In most cases, you'll also be charged surrender fees. So please reach out to your current insurance company and ask how much.



### 3. Section 79 income

The premiums on the first \$50,000 of group term life insurance are tax free to you. The premiums for the excess amounts of insurance, the “exclusion” amounts set forth in the table, are actually deemed “income” to you under section 79. The table sets forth how much income you are deemed to receive.

The calculations regarding income taxes and your group term premia are set forth in this chart.

	<b>James</b>	<b>Stephanie</b>
<b>Annual Salary</b>	\$ 128,648.00	\$ 116,832.00
<b>2x Annual Salary</b>	\$ 257,296.00	\$ 233,664.00
<b>Exclusion</b>	\$ 207,296.00	\$ 183,664.00
<b>Divided by 1000</b>	\$ 207.30	\$ 183.66
<b>Times cost rate .10</b>	\$ 20.73	\$ 18.37
<b>Times 12 mos .10</b>	\$ 248.76	\$ 220.40
<b>Yearly inclusion into income</b>	\$ 248.76	\$ 220.40

### **2. Charity - Offset Inherited IRA distributions with cash contributions to charitable organizations.**

In the Charity Chapter, we recommended that you distribute \$16,500 each year from James’s Inherited IRA for 10 years. This will ensure you have a balance of \$0 at the end of the 10th year. Remember, the account balance must be zero on the 10th year following Billy’s death in accordance with the 10-year rule. We have demonstrated distributions in the table below:

Year	Account Balance	Distribution	Remaining
0	117140	16500	100640
1	110704	16500	94204
2	103624.4	16500	87124.4
3	95836.84	16500	79336.84
4	87270.524	16500	70770.524
5	77847.5764	16500	61347.5764
6	67482.33404	16500	50982.33404
7	56080.56744	16500	39580.56744
8	43538.62419	16500	27038.62419
9	29742.48661	16500	13242.48661
10	14566.73527	14566.73527	0

Each year, you will distribute \$16,500 from the account for a total of 10 years. You will have to pay federal and state taxes on this distribution at the ordinary income rate. You are currently in the 24% federal tax bracket and the 5.75% state and local tax bracket. In total, you will pay \$4,908.75 in taxes when you distribute \$16,500. After tax, this leaves you with \$11,591.25. We also suggested that you keep \$2,336.64 as income to you. This will offset your extra 2% 401(k) contribution we recommended in the Retirement Chapter. After considering taxes and extra income kept, you will have \$9,254.61 left over in cash to contribute to charity.

The table below shows the tax consequence that comes along with withdrawing \$16,500 each year for 10 years.

Year	Distribution	Federal	State	Total Tax Paid	Left over After Tax	Income Kept	Contribution to charity
0	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
1	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
2	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
3	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
4	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
5	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
6	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
7	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
8	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
9	16500	3960	948.75	4908.75	11591.25	2336.64	9254.61
10	14566.73	3496.01	837.58	4333.60	10233.13	2336.64	7896.49
				<b>\$53,421.103</b>		<b>\$25,703.04</b>	<b>\$100,442.59</b>

If you contribute \$9,254.61 to charity, in addition to the current \$7,500, you will be able to take a charitable deduction worth \$16,754.61. Your current tax liability is \$29,800. By implementing the plan above, your tax liability will increase to \$31,539 every year you distribute from the Inherited IRA. This increases your tax liability by \$1,739 each year for 10 years.

Unfortunately, because this is in an Inherited IRA, there is no way around this tax. Taking a lump sum distribution will push you into a higher marginal tax bracket which is not a good idea. Therefore, the best solution is to offset your withdrawal with charitable cash contributions while also fulfilling your charitable goals.

### 3. 401k deferral

Electing to defer money into your 401(k) is a great tax strategy in addition to saving for retirement. Workers are able to set aside part of their pay before federal and state income taxes are withheld which lowers their taxable income so you pay less income tax now. Stephanie's employer offers a 401(k) 50% match on the first 6% of salary deferred. Our understanding is that you currently defer 8% of your salary. This saves you **\$2,243.17** ( $\$116832 \times .08 \times .24$ ) in tax each year. Because you are in the 24% marginal tax bracket that means you receive \$0.24 per dollar on your deferrals.

### 4. Reallocating taxable account

In the Investments Chapter, we recommended that you reallocate your joint taxable account. We believe this reallocation will fit your risk tolerance better. Because this is a taxable account, any trades done within the account are considered taxable at capital gains rates. We have assumed that all capital gains are long term capital gains. We have suggested selling \$5,000 of VFIX and \$15,000 of HRMDX. This will trigger a tax consequence.

The tax calculation for this sale is relatively simple. When you sell an asset, in this case a mutual fund, the difference between the adjusted basis in the asset and the amount you realized from the sale is a capital gain or capital loss. Generally, an assets basis is equal to the assets cost to the owner. Therefore, when you sell an asset, you are essentially receiving your own money back. Anything greater than this amount is a gain and anything less than this amount is a loss.

The table below shows long term capital gains tax rates for 2023 based on your filing status and income. Because you file taxes as married filing jointly, and your combined income is about \$200,000, you will be taxed at the 15% capital gains rate.

Filing Status	Taxed at 0%	Taxed at 15%	Taxed at 20%
Single	Up to \$40,400	\$40,401 — \$445,850	\$445,851 and above
Married filing jointly	Up to \$80,800	\$80,801 — \$501,600	\$501,601 and above
Married filing separately	Up to \$40,400	\$40,401 — \$250,800	\$250,801 and above
Head of Household	Up to \$54,400	\$54,401 — \$473,750	\$473,751 and above

We sold \$5,000 of VFII. Your basis in the stock is equal to 50% of the asset's value. Therefore, your basis is \$2,500 (one half of \$5,000). Your gain is equal to \$2,500 ( $5,000 - 2,500$ ). Based on the table above, you will pay 15% on this capital gain for a total of \$375 ( $.15 * 2,500$ ).

We also sold \$15,000 of HRMDX. Your basis in the stock is equal to 50% of the asset's value. Therefore, your basis is \$7,500 (one half of \$15,000). Your gain is equal to \$7,500 ( $15,000 - 7,500$ ). Based on the table above, you will pay 15% on this capital gain for a total of \$1,125 ( $.15 * 7,500$ ). These are pretty favorable rates since you have held these assets for more than a year, making them long term gains.

In total you will pay \$1,500 ( $\$1,125 + \$375$ ) in long term capital gain taxes. However, we believe this reallocation needs to be made to better fit your risk tolerance.

## 6. 529

When you withdraw money from your 529 college savings plan, you will get this money tax free. The IRS states this money is tax free “when used for qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board at an eligible education institution.” Because you have met your goal, you will no longer need to contribute

money to your kids 529 college savings plan. This will increase your tax liability because you are not eligible for the state tax deduction.

## **Option 2**

You do not have to make all of the changes we recommend above. If you choose not to, your tax liability will change. We can revisit after our discussion.

## **Alternative 1**

Donate more to charity to take advantage of a greater deduction. This will decrease your tax liability. You are able to deduct up to 60% of AGI for cash contributions. In other words, you can deduct up to \$136,801.20.

## **Recommendation**

We recommend you make all the changes listed in Option 1. In total, this will make your new tax liability \$31,683. Your tax liability increased by \$1,883. We have accounted for your Inherited IRA withdrawals and the \$600 for my benefits wellness program. We have also included the \$9,254.61 you can deduct for your cash contributions to charitable organizations. By eliminating the 529 state tax deduction, your new state tax liability increases by \$414 (\$10,706 - \$10,292).

## **Monitoring**

Each year we will continue to monitor inflows and outflows that affect your tax liability. We can also make adjustments to recommendations.

According to the IRS, a 0.9% Additional Medicare Tax applies to Medicare wages, self-employment income, and railroad retirement (RRTA) compensation that exceed the following threshold amounts based on filing status:

- \$250,000 for married filing jointly;
- \$125,000 for married filing separately; and
- \$200,000 for all other taxpayers.

By taking a \$16,500 distribution from the Inherited IRA each year, your total income is only \$244,000. This is below the \$250,000 threshold for married filing jointly. However, this is

something to watch for with salary increases in the future years. We understand that your salary will increase by 3% each year, so this could push you above the threshold. We will keep an eye on this.

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We know we have given a lot of information in the proceeding document. We understand it's a lot to digest. This final document is an implementation timeline. It provides a handy checklist of recommendations. If you just focus on this checklist, you will complete every recommendation in this plan.

Please implement as follows:

By June 15, 2023

- You must choose employee benefits by this date. Please don't let this window pass without making these elections!
- Reallocate investment accounts
- Complete credit card balance transfer

By July 1, 2023

- Buy HO3 policy
- Add/Purchase Personal Articles policy
- Purchase new automobile policies
- Buy watercraft policy
- Buy collectables policy
- Buy PLUP
- Buy James Term insurance

- Buy Stephanie Term insurance
- Buy waiver of premium rider
- Pay group term premia

By July 15, 2023

- Cancel current HO3 policy (make sure new coverage is in affect)
- Cancel old automobile policies (make sure new coverage is in effect)
- Surrender James's whole life policy (make sure you have coverage)
- Surrender Stephanie's whole life policy (make sure you have coverage)

By September 1, 2023

- Go see an attorney for all your estate planning needs

By the end of 2023

- Distribute \$16,500 from James's Inherited IRA
- Donate cash from Inherited IRA to charity



## Monitoring

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We rely on your constant communication with us. It is important that you keep us informed about any changes that could affect your financial situation. We are excited to move forward with you as partners in this journey. Please don't hesitate to reach out with any questions you have!