Comprehensive Financial Plan - Clayton Cole Anderson

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The Capitol Financial Planners

Fictitious names being used throughout document

123 Maple Road
Springfield, Missouri

July 23, 2019

Comprehensive Financial Plan for Tyler and Mia Bedo

Plan Prepared by Clayton Cole Anderson
Senior Financial Planner, The CFPs

Mr. and Mrs. Tyler Bedo
727 Success Ln.
Springfield, Missouri

Tyler and Mia,

Financial Planning Engagement Letter

This letter is to confirm what services that I am to provide that we recently discussed in person at my office last month. Fact Finders, or information forms, will be sent to you so that you may update me on your personal financial situation, as well as any potential changes to your goals. Although we have already discussed these things at length, it is important for you, as well as myself, to keep them up-to-date so that I can make recommendations that are as effective and efficient as possible.

Once I obtain this information from you, I will begin a detailed analysis of your family financial situation. I will also use this information to provide recommendations to adjustments to your practices and behaviors that will help you achieve your financial goals.

I will divide these recommendations into several parts. These parts will include sections on your cash flow and net worth, tax liability, insurance, needs and investments, retirement, and estate planning. It should be noted that I, nor my firm, am not a licensed tax professional or attorney, and therefore, my recommendations for tax and estate planning related issues should be discussed with your tax professional and/or attorney before being implemented. My firm has professional relationships with reputable tax professionals and attorneys should you require or request a referral.

The recommendations I will provide will be based off of the information you have/will provide to me through both in person meetings and fact finder forms. It is imperative that you are extremely detailed in the information that you provide me so that I may serve you as well as possible.

Any and all information that you provide, along with all of my recommendations and your comprehensive financial plan, will all remain confidential. This information will only be shared/discussed with those who have been approved by you in writing, or if the law requires information to be saved.

It is also important to remember that all recommendations made are just that, recommendations. These are suggestions meant to better your financial picture that are to be implemented at your discretion. In this contractual agreement you will pay a fee for this written analysis and recommendations, which will include all previous recommendations to this date.

Once you have had time to look over my recommendations thoroughly, there are follow-up options that are also at your discretion. The first follow-up service option is service assistance. This includes sending documents to other professionals, like attorneys or CPAs. This is a fee-free service. The next follow-up service is product sales. This service includes assistance in investment acquisitions, real estate needs, and insurance adjustment/purchases. These will all help you accomplish your financial goals. Finally, there is plan implementation assistance, which is where I will help you implement any parts of the plan where you require or request my assistance. For any aspects of the plan that you choose to implement via my firm and myself involving financial acquisitions (i.e. investments, insurance), I will receive commissions when they are due.

It is important to understand that you are not required to use any of these services. It is entirely appropriate to use other professionals with whom you have an existing relationship or any other firms for the implementation of this plan.

As I previously stated, I am not a tax professional or an attorney, and therefore I am not qualified to prepare legal documents or give legal advice. This also means that I am not qualified to prepare tax documents or tax return information for you. You should always consult an attorney and a CPA for these services.

I feel personally, and it is my firm's philosophy, that you know about us, so that we may establish a personal and trusting relationship. Along with this letter, I have attached a brief history of The Capitol Financial Planners Firm, as well as a description of how we operate and our key personnel you will build a relationship with, including myself.

I do not wish, nor do I expect that I will need to ask anyone else to perform the services that I have agreed to be responsible for. However, a situation may occur where this could be necessary. If this occurs, I will only do so with express written consent.

I believe that it is important if you elect to continue services with me that you do so with a yearly in-person meeting supplemented by quarterly updates via email or over the phone. In order to properly continue services to the best of my abilities, it is important that we maintain a personal relationship throughout this process. The in person meetings will have a charge of 60% of the original fee with 15% due at each quarter. This amount may be adjusted in the future in accordance with company policy.

If you are dissatisfied with the services I have provided at any point, you may cancel this agreement. However, in order to receive a full refund of my fee, the cancellation must occur within five (5) business days of the contract agreement. Any time after this, you may still cancel the agreement, but fees for services rendered up to that point will be kept.

By signing this document, you are agreeing that any controversies or disagreements that could potentially occur between us will be decided by arbitration as permitted by the law. Arbitration will be performed in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Any decision levied by the arbitrators will be final and not subject to appeal.

The fee that will be charged to you is based off of the anticipated amount of work that I will perform. The total fee for your comprehensive financial review is $750.00, as we discussed previously.

If you understand and agree to these terms, please sign both copies of this letter and return one to me. If you have any questions, please do not hesitate to reach out to me. I would be happy to assist with anything.

Signed: ____
Date: __________________________

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A brief history of The CFPs:

Our firm began in 2009 when Clayton Cole Anderson and Jean-Ralphio Saperstien founded it in Springfield, Missouri. Clayton and Jean-Ralphio have a combined 35 years of Financial Planning experience and worked together at a different firm before deciding to found their own. The CFPs have prided themselves, since their inception, on being a client first business. Being a smaller firm, The CFPs has relied on referrals and their loyal client base that have built trusting and lasting relationships. Through hard work, and dedication to their clients, The CFPs have become one of the most trusted financial institutions in Missouri.

Mission Statement:

We are CFP professionals driven to provide sound financial planning services to our clients. As CFP professionals, we hold ourselves to a strict ethical standard and strive to provide the best advice we possibly can for our clients.

Vision Statement:

We aim to secure our client financial futures while achieving their financial goals. We want our clients to be able to rest easy knowing that their financial future is secure. Our goal is to advise clients with informed, ideal recommendations, which will lead them to meeting their financial goals. We achieve this by fostering a relationship with our clients that is based on mutual trust and a genuine desire to help our clients. It is our utmost desire to enable our clients to go above and beyond their goals through the best possible advice we can provide.

Code of Ethics:

Our firm requires all of its financial planners to have earned the CFP certification from the CFP Board. In order to receive the CFP certifications the CFP Board requires that professionals have received both extensive training and experience, and also has, and will be, held to strict ethical standards. These ethical standards require that our firm's professionals have the willingness and knowledge to most effectively meet your needs as a client. It also requires that all necessary information shared by you, the client, will be held in confidence. The following 7 principles are the CFP Board's Code of Ethics:

1. Integrity

Trust is central to a successful financial planning relationship. You rely on your planner's honesty, professionalism and abilities to achieve your goals. When you know your planner takes his professional obligations seriously and places principles over personal gain, you can form a good working partnership. CFP Board's strict Standards of

Professional Conduct are designed to ensure your CFP® professional acts in a professionally responsible manner.

2. Objective Advice

Your needs will be at the heart of all your planner's recommendations. A CFP® professional has an ethical obligation to act in your best interest when she provides financial planning advice. Your planner will use her experience and judgment to carefully consider your situation, and then give you advice that best meets your goals. Sometimes this objectivity may require your planner to explain that your goals are unrealistic given your current resources and financial commitments.

3. Competence

CFP® professionals have demonstrated an appropriate level of knowledge to offer financial planning advice. The CFP® certification provides confidence that your financial planner has completed rigorous education and experience requirements — including continuing education coursework—designed to ensure competence in financial planning.

4. Fair Treatment

Fair treatment means your CFP® professional will clearly state what services will be provided and at what cost. Your planner will also explain the risks associated with all financial recommendations, along with any potential conflicts of interest.

5. Privacy

To get the best results from your financial planning relationship, you need to divulge relevant personal and financial information to your financial planner on a regular basis. Your CFP® professional will keep this information in confidence, only sharing it to conduct business on your behalf, at your consent or when ordered to do so by a court of law.

6. Professionalism

Your CFP® professional will not provide investment advice or stock brokerage services unless he is properly qualified and licensed to do so, as required by state or federal law. If your situation requires expertise which your CFP® professional does not possess, he should suggest other professionals who may assist you.

7. Diligence:

Before engaging you as a client, your CFP® professional will discuss your goals and objectives and explain what you can expect from the relationship. Once your planner has determined that she (or her staff or network of related professionals) can assist you, the planner will make recommendations suitable for you. A diligent planner will reasonably investigate the products or services she recommends and closely supervise any staff working with you.

Because our firm requires our professional associates to have obtained their CFP certification, these seven principles of ethics are the minimum standard that is acceptable to the CFP board. However, as a firm, we expect that these ethical principles are not only met by our professionals, but are exceeded to the best of our abilities.

Key Employees:

Clayton Cole Anderson, CFP

Clayton has 14 years of experiences as a financial planner. He received his CFP designation after graduating from Iowa State University with a Master's degree in Family Financial Planning. He is originally from Houston, Texas.

Jean-Ralphio Saperstien, CFP

Jean-Ralphio, or JR as his coworkers know him, has worked as a financial planning professional for 21 years. JR graduated from the University of Missouri in 1998 with a degree in financial planning. JR and Clayton have been coworkers since 2006 when they met at their previous firm.

Ronald U. Swanson, Director of Operations

Ronald is the director of operation and handles the basic communications on non-advice issues. He has held this position since 2013. Ronald's responsibilities include organization of client meetings, collection of data, and staying connected with clients.

Privacy Statement

We promise that we will protect both your personal and financial information with top-level security. We guarantee that any and all personal and financial documents will only ever be viewed or used in our company's secure computer network. We feel that the client should be at ease knowing that all of the information they share is safe on kept confidential. Any and all personal and financial information including the following will be kept confidential:

· Name, address, email, phone number, other contact info
· All demographic information
· Income statements, balance sheets, bank account information, insurance, tax information, investment information
·Any other personal or financial information you wish to keep private

This information will only be available to our professionals here at BWFS. The information will only be disclosed to a third party, at your consent. We only keep this information to provide you with accurate and professional financial advice. This information will not be shared with anyone else without your consent, unless required by law.

Cash Flow Analysis

Clayton Anderson

Financial Statements:

I have taken the time to calculate your financial statements and arrange them in this section as a summary of your current financial picture. I have included your statement of cash flows (current income and expense statement), your statement of net worth (all of your assets and current liabilities), and your current ratio analysis. Following this ‘snapshot’ of your current finances, I will cover what is working for you, and what is NOT working, so that we can make the appropriate decisions when it comes to achieving your financial goals.

First up is your statement of cash flows. It is important to understand that this is different than your budget, which is just a projection of what you will earn and what you want to limit your spending to. This statement instead is a reflection of your actual consumption and actual income.

*All amounts are annual calculations

Income and Expense Statement
Tyler and Mia Bedo
Year Ended December 31st, 2018

Client Income

Tyler	
Salary	$68,466.58
Bonus	$34,233.30
Total Tyler Income	$102,699.88
Mia	
Salary	$32,496
Total Mia Income	$32,496
Total Joint Income	**$135,195.88**

Client Savings (Outside of QRPs)

Description of Fund	**Annual Contribution**
Sagebrush Fund	$3,000

Ruth Fund	$3,000
Individual Conservative Fixed Annuity Contracts	$3,000
Money Market Account	$1,800
Haley G&I Fund	$3,000
Total Savings (o/s of QRPs)	**$13,800**

Retirement Plan Contributions

Tyler's		
Consumer Fund	3% of Base Salary ($2,054)	0% Employer Match
Graham Fund	3% of Base Salary ($2,054)	100% Match on 3% ($2,054)
Mia's		
Rocket Fund	10% of Base Salary ($3,249.60)	100% on first 3%, 50% on first 6% ($1,462.32)
Total Retirement Plan Contributions	**$10,873.92**	-

Committed Expenses:

Housing Expenses	
Real Estate Taxes	$1,675
Homeowner's Insurance	$700
Utilities	$4,200
Other Household Expenses (Yard, Trash)	$400
Total Housing Expense	$6,975
Food, Clothing, and Transportation	
Groceries	$5,100
Clothing	$2,800
Car Maintenance and Gas	$1,500
Car Insurance Premiums	$2,000

Missouri Plate/Tag Tax	$450	
Total Food, Clothing, and Transportation		$11,850
Loan Payments		
Mortgage	$13,056	
Car Loans	$5,412	
Credit Card Payments	$5,100	
Total Loan Payments Expense		$23,568
Other Committed Expenses		
Medical Costs (Co-Pay)	$240	
Prescriptions	$240	
Dental and Eye	$600	
Life Insurance Premiums	$2,064	
Health Insurance Premiums	$3,600	
Umbrella Insurance Premiums	$175	
Disability Insurance Premiums	$300	
Other Misc. Insurance Premiums	$300	
Telephones	$1,500	
Bank Charges	$120	
Personal Care (Hair Cuts, Dry Cleaning)	$1,200	
Total Other Committed Expenses		$10,339
Total Committed Expenses		**$52,732**

Discretionary Expenses:

Entertainment (Movies, Shows, Etc)	$2,700	
Television	$600	
Dining Out	$3,300	
Recreational Activities	$2,700	
Travel/Vacation	$3,000	

Savings for Art Gallery	$1,800
Charitable Gifts (University Alumni Fund, Church, United Way)	$5,800
Holiday Gift Giving	$1,800
Home Improvements	$1,800
Dues (Organizations, Golf Club)	$1,800
Subscriptions (Time, Money)	$960
Housekeeping	$960
Pet Care	$420
Tax Prep Fees	$400
Total Discretionary Expenses	**$28,040**

Total Cash Flow

Total Income	**$135,195.88**
Total Expenses	**$80,772**
Net Cash Flow	**(+)$54,423.88**

Your statement of financial position, also referred to as your statement of net worth, provides a clear picture of the assets you own, and your current debts owed.

Statement of Net Worth
Tyler and Mia Bedo
As of December 31st, 2018

Assets

Personal and Real Assets	
Home	$250,000
Furnishings	$45,000
Ford Taurus (3 Years Old)	$20,000
Nissan Quest (5 Years Old)	$15,500

Yard Equipment	$8,000	
Jewelry and Collectables	$10,000	
Phil Mickelson Driver	$5,000	
Golf Clubs/Sports Equipment	$2,500	
Artwork	$5,000	
Boat	$5,800	
Total Personal & Real Assets		$366,800
Monetary Assets		
Savings Account	$10,000	3% Yield
Checking Account	$3,500	No Yield
Money Market Account	$10,000	3% Yield
Checking Account (Earmarked for Art Gallery)	$5,000	No Tiled
Total Monetary Assets		$28,500
Investment Assets		
EE Bonds	$25,000	3.5% Deferred
Haley G&I Fund	$69,000	3.2%
Konza Fund	$43,000	1.75%
Ruth Fund	$13,000	4%
Sagebrush Fund	$8,000	0.5%
Total investment Assets		$158,000
Retirement Assets		
Tyler's 401(k), Consumer Fund, Graham Fund	$69,000 (Consumer) $134,000 (Graham)	8.75% (RoR) 4.1%
Tyler's Traditional IRA Certificate of Deposit	$52,000	3.5%
Mia's 401(k), Rocket Fund	$15,250	14%
Mia's Rollover IRA, Ruth Fund	$32,500	4.8%

Mia's Traditional IRA Certificate of Deposit	$52,000	3.5%
Conservative Annuity, Potsdam Fixed Annuity	$125,000	5%
Total Retirement Assets		$427,750
Total Assets		**$981,050**

Liabilities

Loans	
Mortgage	$256,673.60
Car Loan (Ford Taurus)	$10,824
Visa Credit Card	$3,500
MasterCard Credit Card	$2,000
Total Liabilities	**$272,997.60**

Net Worth

Total Assets	$981,050
Total Liabilities	$272,997.60
Net Worth	**$708,052.40**

Before Continuing it is important to recognize the great financial condition you are in now. Obviously, it could always be better, but your diligent saving and lack of substantial short-term debt, like credit card debt, has put you in a wonderful position to be successful and financially secure.

Financial Ratios:

In this section of my report, I focused on your financial ratios. These ratios come from your cash flow statements and your statement of net worth (from the previous section).

Financial ratios give us a complete look at your current financial future by giving us easy to digest numbers that we can compare to target benchmarks. The comparison to these benchmarks will show us exactly where you are doing well, and where you could use a little improvement. It is important to note that these ratios are based on your current/past financial numbers and are not tools to predict your future financial condition.

Current Ratio

Your current ratio determines if you have sufficient monetary assets to pay off all current short-term debts. The benchmark target for this ratio is an number greater than 1, showing that if all of your liabilities were paid off, then you would still have monetary assets left over.

Current Ratio = Monetary Assets/Current Liabilities
Benchmark Target = >1

Monetary Assets		
Checking Account	$10,000	
Savings Account	$3,500	
Money Market Account	$10,000	
Checking Account (Earmarked for Art)	$5,000	
Total Monetary Assets		$28,500
Current Short-Term Liabilities		
Visa Credit Card	$3,500	
MasterCard Credit Card	$2,000	
Total Short-Term Liabilities		$5,500

Your Current Ratio = 5.18
Condition – Excellent

Emergency Fund Ratio

Part of my philosophy as a financial planner is that the Emergency Fund Ration is one of the most important. With the constant uncertainty that goes along with every day life, the security of having a 'rainy day fund' that will keep up the support for your family's current way of life is extremely important to a healthy financial picture. Some firms choose to use a 3-6 month need as their basis for the EMF, but I suggest the use of an 8-month time period for good measure.

This ratio is calculated using your committed expenses and your committed expenses. I have excluded any discretionary expenses because should you encounter an emergency that requires you to access these funds, discretionary spending should be extremely limited. This ration will show how long your current monetary assets will last when it comes to covering your current monthly living expenses.

Emergency Fund Ratio = Monetary Assets/Monthly Committed Expenses
Benchmark Target – 8+ (Equivalent to 8 months living expenses)

Monetary Assets	
Checking Account	$10,000
Savings Account	$3,500
Money Market Account	$10,000
Checking Account Earmarked for Art	$5,000
Total Monetary Assets	$28,500
Committed Monthly Expenses	
Committed Expenses Per Month	$4,394.33
Total Monthly Committed Expenses	$4,394.33

Your Emergency Fund Ratio = 6.49
Current Condition – Okay (Just a little shy of target of 8, will cover in recommendations)

Savings Ratio

The savings ratio is pretty straightforward. It is calculated by adding up your personal savings, like your savings account and retirement contributions, as well as your employer contributions. This total is then divided by your annual gross income. This ratio will give us an idea of just exactly how much of your annual income you are saving.

In my practice, I want all of my clients to be world-class savers. Being a world-class saver is saving anywhere from 15-20% of your income on a yearly basis.

Savings Ratio = Personal Savings + Employer Contributions/Annual Gross Income
Benchmark Target – 15-20%

Savings & Employer Contributions	
Savings Account	$3,500
Money Market Account	$10,000
Retirement Contributions	$7,357.60

Total Employer Match	$3,516.32
Total Personal Savings	$24,373.92
Annual Gross Income	
Tyler	$102,699.88
Mia	$32,496
Total Annual Gross Income	$135,195.88

Your Savings Ratio = 18.02%
Current Condition – Excellent (I will provide some suggestions on moving some 401(k) contributions elsewhere)

Debt Ratio

The final ratio I have included illustrates the amount of your assets that have been financed through borrowing. This ratio is calculated by dividing your total liabilities by your total assets. In order to have a healthy financial picture, I always use a target benchmark of having a debt ratio lower that 30%.

Debt Ratio = Total Liabilities/ Total Assets
Benchmark Target - <30%

Total Liabilities	
Short-Term	$5,500
Long-term	$267,497.60
Total Liabilities	$272,997.60
Total Assets	
Assets	$981,050
Total Assets	$981,050

Your Debt Ratio = 27.83%
Condition – Excellent

Ratio Analysis

Based on these core ratios, all of which I consider key to financial stability and success, you are in great condition. As with all things, there are areas where we can make improvements. The most notable area is in your Emergency Fund Ratio. Although you have over 6 months of committed expense coverage based on your liquid assets, I would love for that to be pushed above 8 months. Your debt ratio is well below the targeted benchmark, but elimination of your short-term debts (credit cards) will push this number even lower. Your savings ratio easily falls into my 'world class' benchmark. Keep it up; this is key to securing your financial future. Finally, your current ratio is in excellent condition. Maintaining this should remain a priority, as it will make your long-term goals much more easily attainable.

Recommendations

Based off of your financial statements and ratios, I have come up with two recommendations for you to implement into your financial habits. These recommendations are not drastic, but rather simple tweaks to your already solid financial picture. Your financial statements and ratios allowed me to fully grasp your financial situation, thus making these recommendations with clear cut instructions on how to accomplish them, and what these recommendations will lead to.

The first recommendation is to get your emergency fund ratio up to over 8. As stated earlier, this ratio is a direct reflection on the number of months your monetary assets will cover your fixed expenses before they run dry. This is extremely important in the cases of a natural disaster, or something like loss of employment. I believe that having this ratio over 8 will give you great peace of mind knowing that your family is financially prepared for whatever life can throw at you.

My recommendation deals with Mia's retirement contributions. Right now, Mia is contributing 10% of her annual income to her retirement plan, despite the fact that she only receives an employer 100% match on 3% and a 50% match on up to 6%. I recommend that instead of contributing the extra 4% that is not matched in any way by Mia's employer, that you add it to your current savings account. On an annual basis, this will add an additional $1,300 to your savings and increase your Emergency Fund Ratio from 6.49 to 6.78. This is still short of our target goal, so I also recommend that you halt the annual $3,000 contribution to The Ruth Fund and instead divert it to your savings/rainy day account. This additional savings will increase your EFR from 6.78 to 7.47 after one annual contribution period. This will push you very close to our target of 8. Additional savings can be added from cut backs to discretionary spending, lower contributions to NQPs, or diversion of Tyler's annual contribution to the non-employer matched consumer fund retirement account.

The second recommendation has to do with your short-term liabilities (credit card debt). Right now, you currently have an unpaid total balance on your cards of $5,500. While not an enormous number, it is holding you back in terms of the things you could be doing (saving) with the money you are putting towards monthly payments. With $10,000 in your current checking account, I recommend that you use a portion of that to pay off both your Visa and MasterCard credit cards. By paying these cards off, not only will you immediately drop your total liabilities, and thus raise your Current Ratio and lower your Debt Ratio, but you will also free up $5,100 per year that you were contributing towards credit card payments. This recommendation will pay off immediately, but also, in just 14 months, if you divert what you were spending on credit card bills to your savings, it will replenish that $5,500 you spent paying off your credit card debt. Using your credit card is not something I will ever discourage, I just want you to keep your spending on it low enough that it can be paid off at the end of every month in a timely fashion.

If you decide to implement my financial recommendations, I think that you will see immediate returns on not only your ratios and balance sheets, but your bottom line.

Income Tax Analysis

Clayton Cole Anderson

Overview:

One of the key beliefs here at The Capital Financial Planners is that we provide our clients with the financial advantage of having a complete tax analysis. This is reflected in my own personal philosophy as well. Taxes and their implications and effects will be found throughout this plan. Some ways for you to take advantage and lower income and social security taxes will also be laid out.

Terms To Know:

Capital Gains - Capital gain is a rise in the value of a capital asset gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.
Capital Gains Tax – A tax levied on profit from the sale of property or an investment (capital gain).
Filing Status - a category that defines the type of tax return form a taxpayer must use when filing his or her taxes.
Tax Bracket - Shows you the tax you will pay on each portion of your income.
Marginal Tax - Determines what tax rate your next dollar of income will be taxed at.

Federal Tax:

The amount of tax you owe to the federal government is outlined in the Form 1040 furnished by the IRS. This form determines the amount of taxes that you owe in a few steps, the first of which is determining your original (or initial) taxable income. Income is composed of your earnings from your means of employment, as well as any dividends or capital gains you have earned, and a few other sources. After this income is known, deductions can then be made. These deductions are from certain expenses, referred to as above the line. After these deductions are made, you are at your AGJ or Adjusted Gross Income. Some examples of these expenses include IRA deductions, tuition and other schooling fees, and Health Savings Account deductions.

After AGI is calculated, there are more deductions known as below the line deductions to take into account. These can further decrease your income subject to federal tax. In terms of deductions you can chose to take either a sum of your itemized deductions, or a standard deduction, whichever is higher. This, along with some itemized deductions like state and personal property tax, medical expenses, and mortgage interest can drive down your federal tax bill. An important piece of information is that the above listed is not complete and there are limitations as well as some thresholds that need to be achieved before certain itemized deductions can be utilized. After a determination of whether to utilize standard or itemized deductions is made, exemptions can be taken advantage of to further drop taxable income.

Exemptions can also be taken for any dependents of a client. After your income is adjusted based everything above and below the line, your taxable income is reached. This income allows you to find what tax bracket you belong to in order to determine your tax liability.

State/Local Tax:

Your state tax liability is calculated by using form 760 furnished by the IRS. Using this form, your state tax is calculated very similarly to your federal income tax, with some exceptions. To determine your state taxable income, you use the AGJ (Adjusted Gross Income) stated on your federal return as your starting block. To get to your state AGJ, you then take out the state tax refund claimed in your federal tax return. Once you have realized your state AGJ, you deduct the higher deduction between the standard and itemized deductions take on your federal tax return. If itemized deductions are chosen you must add back both the state and local taxes claimed used in your federal itemized deductions. After this, you then take away the allowed exemptions to further reduce taxable income. After this step, you are allowed to take a deduction of up to $4,000 if you contribute to a state 529 plan using married filing jointly tax status. If childcare expenses are something you claim on your federal tax return, you can deduct those expenses fully for state purposes up to $6,000. After these steps have been completed, you have reached your state taxable income. This number allows you to find your state tax liability.

FICA:

FICA taxes are determined by finding earned income and then removing qualified expenses. These qualified expenses for FICA purposes are employer sponsored health care premiums, section 125 contributions, and other expenses towards pre-tax benefits.

Current Tax Situation (2018):

**Numbers are from Married Filed Jointly Tables*

-Marginal tax bracket is 22%
-State marginal tax bracket of 5%
-FICA tax of 7.65%
-Rate of inflation is 3%
-Tax rates will rise in the future
-Interest and dividend income will be reinvested
-Interest and dividends will go up at 3%

Situation:
In order for us to find and utilize the best tax strategies, it is paramount that you understand your current tax situation and how your taxes are calculated. Currently, you have a federal tax liability of $23,782.17 this year, state tax liability at $6,251.91, and a FICA tax liability of *$10,286*.

This means that your total tax liability (combined amount owed for federal, state/local, and FICA) is $40,320.08

Federal Tax Breakdown:

The current amount you both have earmarked for your federal taxes via income tax withholdings is $22,178.

INCOME:
- $135,195.88 in total income

ABOVE THE LINE EXPENSE ADJUSTMENTS:
-$7,357.60 in Qualified Retirement Plan Contributions

ITEMIZED DEDUCTIONS:
- $11,812.50 mortgage interest
- $5,800 in charitable contributions
- $450 personal property tax (Missouri Plate/Tag Tax)
- $1,675 real estate tax

EXEMPTIONS:
-None

Federal Income Tax Calculation

Total Joint Income	$135,195.88
Retirement Contributions	($7,357.60)
Federal Adjusted Gross Income	$127,838.28
Itemized Deductions	($19,737.50)
Exemptions	None
Taxable Income	$108,100.78
Total Federal Tax Liability	**23,782.17**

*Based off of this calculation, you owe an additional $1,604.17 in federal taxes on top of what you both have earmarked via income withholdings.

State Tax:

Your current amount earmarked via state income tax withholding is $6,266.

State Tax Income Calculation

Federal AGI	$127,838.28
Itemized Deductions	($1,000)
Exemptions	($1,800)
State Taxable Income	$125,038.28
Total State Tax Liability	**$6,251.91**

*Based off of this calculation, you are owed a refund of $14.09 on your state/local tax withholdings.

FICA Tax:

Based on your FICA withholdings, you owe $10,286

2019 Projections:

Following the implementation of my recommended tax strategies as well as adjusting for comprehensive plan recommendations, I am including a projected tax liability table for the next fiscal year. These projections will factor in the expected 3% raise in your annual income for inflation, as well as the 2019 Tax Tables.

Projected 2019 Joint Income: $139,251.76
Projected 2019 Federal Adjusted Gross Income: $131,673.43
Projected 2019 Federal Taxable Income: $111,343.80
Projected 2019 Federal Tax Bracket: 22%

Projected Tax Liability Values (2019)

Total Federal Tax Liability (22%)	$24,495.64
Total State Tax Liability (5%)	$6,583.67
Total FICA Tax Liability (7.65%)	$10,652.76
2019 Projected Tax Liability	**$41,732.07**

Tax Recommended Actions:

After a thorough analysis of your tax information and review of your possible courses of action, there are a few recommended actions I have developed for you as we move forward. It is my goal find the best solution to any tax issues you have, get your total tax liability as low as possible, and to find the best potential courses of action so that together we can arrive at an agreed upon tax strategy that best serves you and your needs.

1. Adjust income tax withholdings.
One of the first things I noticed when analyzing your current tax picture was that there are some discrepancies in your withholdings compared to what you actually owe. Specifically, for the previous fiscal year, 2018, you had total federal tax withholdings of $22,178, which was $1,604.17 below what you actually owed. On the other end, you actually had slightly too much withheld when it came to your state/local tax liabilities ($6,266 compared to $6,251.91). Having your employer adjust for these differences, while taking into account your projected 3% income increase to compensate for inflation, will free up some cash. By that I mean that you will not need to pay that additional $1,604.17 in federal taxes because it will already be withheld and you will already have the surplus of state withholdings in your pocket. These withholdings adjustments will make your life easier come tax time next year.

2. Consider an increase in charitable giving.
For the fiscal year 2018, your recorded $5,800 in charitable giving. At just under 4.3% of your total income, it was a very generous amount. I recommend an increase in this are however. If you increase your charitable gifts to let's say $9,750, or right around 7% of your projected 2019 income, it will lower your projected federal taxable income from $111,343.80 to $107,396.18. This will lower your final tax liability by $868.48, plus the additional deducted giving amount.

DISCLAIMER: I am not a tax professional, therefore I advise you to go over these strategies with a Certified Public Accountant before implementation.

Personal Insurance Analysis

Clayton Cole Anderson

Overview

When it comes to your comprehensive financial plan, the protection element is perhaps the most important portion of the entire thing. Here at The Capitol Financial Planners, we have a saying, “Protect your todays before you worry about your tomorrows.” Making sure you are properly protected via insurance is paramount. There are three different types of insurance that will be broken down and analyzed in this section. They are Life Insurance, Health Insurance (including medical, dental, vision, and prescription), and Disability Insurance (including long-term care). Each one of these types of insurance protects you and your family in a different way.

In this section, I will analyze the coverage you currently have in place, assess whether you have cost effective protection in place for each specific type of insurance, make some recommendations, and show the impact these recommendations would have on your cash flow statement. Together, we will make sure that the Bedo family is prepared for anything life can throw at them.

Current Insurance Coverage

Life:
I have chosen to start with life insurance because it is my personal philosophy that it it’s the most important. Your life insurance protects your most valuable asset; you. More specifically, it protects your ability to earn an income by being alive.

When it comes to your current life insurance coverage, you are doing better than most people. By that I mean that you actually have some protection. That being said, there is a lot that we can do to put you in a much better situation.

Based on your policy information that you have provided me, you have whole-life policies on each of your lives with a death benefit of $100,000, which is less than 1x of the annual salary for Tyler (97.37% of Tyler’s 2018 income) and just over 3x the annual salary for Mia (308% of Mia’s 2018 income). Although this money would be very valuable to your family should one of you die, it is not nearly what you should be getting for the amount of money you are paying. In fact, your employer sponsored group term policies are much better for you in terms of cost effectiveness. Given your ages and health ratings, I have taken the liberty of researching what you should be getting. Based off of quotes from the very reputable company Guardian, you qualify for the following coverage:

-**Tyler**: Due to your excellent health and relatively young age, you should have a Whole-Life policy with a death benefit that pays 20x your annual income. Via Guardian, you are quoted for a $2,000,000 policy that accumulates cash value just like your current policies, for a monthly premium of $452. Obviously, this monthly premium is much more than your current policy's (which is $92/month), but properly insuring your life is extremely important should something happen to you.

-**Mia**: Due to your excellent health and relatively young age, you should also have a policy that pays a death benefit of 20x your current annual income. Also via Guardian, you are quoted for a $660,000 whole-life policy for a monthly premium cost of just $115. In terms of premiums, this is just $35 higher than your current whole life policy, but has 6.6x the death benefit.

Another thing to note is that with a whole-life policy with a significantly higher death benefit, like the quotes I received for you two via Guardian is that the policy accumulates cash value significantly faster. This increase in cash value will allow you to take out loans against the cash value to accomplish any financial goals you chose within your cash value.

As you will see in my recommendations near the end of this section, I believe that your current whole-life policies are not cost-effective for you and your financial needs. Your group term policies provided by your employer actually provide better death benefits with a company paid premium. The only disadvantage these term policies have to your current whole life policies is that they do not have a cash value.

**Later in the section I have provided a needs analysis evaluation for a situation immediately following either of your deaths.*

Health:
Based on the information you have provided me with, Tyler's employer provides your immediate family with health coverage via the HMO organization Peacock & Peacock. In total, you are paying $300 in monthly premiums for this plan, but they are pretax via your employer's 125 plan. You have great deductible and co-pay amounts given the coverage. Another excellent feature of this policy, thanks to The Affordable Care Act, is the lack of a lifetime cap on coverage dollars for each member of the family.

Unfortunately, this company policy does not provide for dental and eye care for your family and you are averaging around $50 per month in out of pocket expenses for dental and eye. While I understand your weariness when it comes to your employer's use it or lose it policy, in the long run, it will be beneficial to get you protection in this area, especially as the whole family ages.

Disability:
Disability insurance is second only to life insurance when it comes to protecting your most valuable asset. Like I mentioned before, this asset is your ability to make an income. DI protects you not only if you are permanently injured, but also for short-term injuries, short-term illness that keeps you out of work, and long-term illness that prevents you from doing your job. Disability insurance is the best way to protect your income, and thus your life style, if anything were to happen to you short of death.

When it comes to the disability coverage you currently have, you are in great shape. Your employer sponsored disability coverage is excellent in terms of the standard employer coverage most other workers receive. With zero wait period, 100% salary and bonus coverage, and own occupation qualifiers with the exception of Mia's long-term care policy; your disability coverage is in excellent shape. With that being said, there is still some room to make some improvements.

Your short-term (<90 days) policies are excellent. Being 100% company paid, no waiting period, and full salary benefits, you are literally not going to do any better when it comes to short-term disability insurance.

When it comes to long-term care, you both are in slightly different situations. **Tyler's** employer provides benefits equal to 60% of salary and bonuses until the age of 65. This is pretty standard when it comes to good long-term disability coverage. Although this is pretty good coverage, it is going to be impossible to maintain your life style on 60% of Tyler's income should he need long-term disability benefits. To alleviate this issue, I am recommending a gap coverage policy. This policy is designed to cover some of the gap left by your long-term benefits only covering 60% of your salary/bonuses. Although it is called gap coverage, it will not cover the entirety of the remaining 40%, as there has to be some sort of an incentive to returning to work. Based on Tyler's type of employment and lack of dangerous elements, age, and health, I have obtained a quote for gap coverage from Guardian. This Gap Disability Policy will provide an additional 18% of Tyler's income and bonuses, bringing him up to 78% in long-term disability benefits. These additional benefits have a 180-Day waiting period from the date of disability, so there will be a 90-Day period in between the transition from Tyler's employer policy from 100%-60% in benefits before this gap policy takes effect. This policy is extremely cost effective as an add on at just $35 per month, or $420 annually.

Mia's long-term benefits via her employer are structured a little bit differently. Her policy through All-World Life and Disability Company has the same waiting period and length of benefit as Tyler's Mid-America policy (90 days and until age 65). The differences come when we get to percentage of salary/bonuses covered and the cost. Mia is in a bit of better situation, as her long-term disability benefits are 70% of her salary. This is good because she will likely not require gap coverage. The only issue is that Mia's salary is not near Tyler's so the 10% difference is not extremely significant. With a current monthly premium of $25, this is an excellent policy to keep in effect.

Recommendation Summary

Life Insurance:

1. Both Tyler and Mia purchase new whole-life policies via Guardian insurance, or other reputable provider. These policies reflect your human life value of 20 times your current annual income. These policies also accumulate cash value, which will allow you to borrow against the policies for any future financial needs. These policies have death benefits of $2,000,000 for Tyler, and $660,000 for Mia. These polices will cost approximately $487 per month in premium based off of your preliminary quotes.
2. Both Tyler and Mia should terminate your current whole-life insurance policies. These policies (via Manhattan Insurance Co.) do not have adequate death benefits for either of you, as they do not reflect your human life values. Additionally, these policies will become unnecessary once you have purchased your new whole life policies. The current cash values on these policies can be used on the premiums of the new policies.
3. Maintain your group term policies provided by your employer. They offer an additional year of your current salary as death benefits and do not require any financial commitment on your part.

**Your life insurance needs analysis is a determination of how much life insurance your family will need in the event of your death to cover things like their remaining mortgage, your final expenses, and your children's education. I have done a needs analysis for each of you in the event of an untimely death.*

Mia: I ran a life insurance needs analysis via New York Life and it showed Mia requires a life insurance policy with a death benefit of $640,000 in order to cover the immediate and long-term needs of your family in the event of your death. Your current whole-life policy has a death benefit that falls substantially short of this benchmark. My recommended plan via Guardian provides slightly over this benchmark value in addition to generating cash value at a much more rapid pace.

Tyler: Based on a needs analysis I ran via New York Life, Tyler requires a life insurance policy with a death benefit of at least $1,412,000 in order to cover the immediate and long-term needs of your family. Your current whole-life policy is well short of this benchmark in terms of death benefit. My recommendation for a whole-life policy via guardian would provide a death benefit of $2,000,000, which is well above your needs analysis and provides for Tyler's human life value.

Health Insurance:

1. Getting dental and optical coverage for the whole family is the most important recommendation in this field. Currently, you have great family health coverage provided by Tyler's employer, but you are spending $600 per year in out of pocket expenses for dental and eye care services. I recommend either beginning to pay into Tyler's employer's 'use it or lose it' policy, as you will more than likely use it, or using that $600 to fund a premium for a dental and optical supplement to your employer provided health insurance. Guardian has a dental and optical combination supplement coverage that your family qualifies for with a monthly premium of $61 dollars. Although this is $11 higher than your average monthly out of pocket expenses on dental and optical coverage, that extra $11 will provide coverage in case of a dental or optical health issue that would really hurt your bottom line.

Disability Insurance:

1. I highly recommend that Tyler purchase gap coverage disability insurance. You both have excellent short-term disability insurance through your respective employers, but only Mia has adequate long-term disability coverage. Tyler's coverage provides a 60% of salary/bonuses benefit, but the suggested Guardian gap coverage would push your long-term benefit amount to 78% of your salary/bonuses. This gap coverage would cost you an additional $35 per month ($420 annually), but allow you to keep more of your current lifestyle should Tyler be unable to work for an extended period of time.
2. Mia should keep her long-term disability coverage. At just $25 per month ($300 annually) in premium, it provides 70% salary replacement and the benefits kick in as soon as her short-term disability coverage ends.

Impact of Recommendations On Cash Flows

Annual Insurance Costs Before & After Recommendation Implementation

Current Insurance Costs		**Insurance Costs Following Changes**	
Life	$2,064	Life	$5,844
Health	$3,840	Health	$3,840
Disability	$300	Disability	$720
Dental/Optical	$600	Dental/Optical	$732
Total Cost	**$6,804**	*Total Cost*	**$11,136**

These recommendations will add an additional $4,332 in annual insurance expenses, but they will create more than $2.4 million in protection for your family. Additionally, your new whole life policies will quickly accumulate a cash value equivalent to your annual premium payments that you can use to finance any of your financial goals.

References

-Recommended Guardian Life insurance policies and Guardian Dental/Optical coverage estimates pulled from https://www6.glic.com/eai/GuardianEAI/eaiProcessor

-Life insurance needs analysis numbers pulled from New York Life insurance needs calculator.
https://www.newyorklife.com/learn-and-plan/life-insurance-calculator

Property & Casualty Insurance Analysis

Overview

Now that we have covered the protection that you have in place on your lives, health, and ability to work, it is time to cover the protection that you have on the things that you own.

Property and Casualty insurance not only covers things like your car if you are involved in an accident, but it also covers things like your personal liability if you are responsible for an accident that injures another person. Just as it is extremely important to protect your actual lives, it is important to protect the things in your life. In this section I will provide an analysis of your current Auto Insurance, Homeowners Insurance, and your Umbrella Coverage. Through this analysis we will determine where you are protected best, and where there may be some potential gaps in your coverage.

As I have before, I will provide you with some recommendations to improve your Property and Casualty Insurance coverage picture, and provide the steps to follow in order to do so.

Current Insurance Coverage

Auto Insurance:
Based off of the information you have provided me, you have equal coverage on both of your cars. Currently, you have split limit coverage (100/300/50) on each vehicle, in addition to $100,000 of uninsured/underinsured motorist protection. This 100/300/50 split limit means that you have $100,000 medical bodily injury coverage per person, $300,000 I bodily injury coverage for the entire accident, and $50,000 in total property damage limits. In terms of your ratings, you have an A.M. Best Rating of A from the Missouri Valley Insurance Corporation, which is excellent. With $500 deductibles for both comprehensive coverage and collision coverage, you are covered pretty well.

For both vehicles you are paying an annual amount of $2,000 in premium for your coverage. With medical payments, rental car coverage, and towing services provided, I see no reason to change anything about your policy at this time. The only thing is that your split limits are very standard, but, being safe drivers, I believe that these are acceptable numbers for your current situation.

Homeowners Insurance:
From what I have gathered from the information you have provided me with about your homeowners insurance, the most important part is the description of your policy. By having an HO-3 policy, in addition to a $100,000 liability limit, you have protection for your dwelling and other structures on a risk-of direct-physical loss basis. All direct

physical losses are covered, except if specifically excluded. Personal property is covered on a named perils basis. In plain English this means that if anything were to happen to your home, or any other structures on your property like a garage, that caused a physical loss, you will be covered for damages. Additionally, the policy covers you for up to $100,000 in costs should you be found liable for something that occurs anywhere on your property. You also have an A rating from A.M. best, which is extremely beneficial should you seek more coverage.

In addition to your HO-3 policy, your home itself is insured for $225,000. With the current value of your home at $250,000, you are at a bit of a deficit in that area. Another issue you have brought to my attention is that you are unsure if your policy has an inflation endorsement. While the $25,000 deficit in coverage on your home is probably less important than the inflation endorsement, both of these issues will need to be eventually addressed, preferably sooner than later. I will include some steps to achieving this with my recommendations.

When it comes to your costs for this policy, you have just a $500 deductible, which is excellent, and pay $700 in total annual premiums.

Umbrella Policy:
Having my clients purchase an umbrella insurance policy is actually a strong part of my personal philosophy, so I am very impressed that you are already in possession of one. With an annual premium cost of $175 providing $500,000 in coverage, I strongly recommend that you keep this policy in place. This umbrella policy provides you with extra liability protection that extends beyond your homeowners liability coverage and your auto liability coverage. Like it says in the name of the policy, this policy is an extra line of defense against the rain of liability claims.

Recommendation Summary

Auto Insurance:

1. Currently you have pretty complete and comprehensive automotive coverage. As of right now I see no immediate need to change or increase your coverage due to your clean driving records. That being said, as mentioned earlier, your split limits are relatively standard. If you saw it prudent, this could be improved. I have taken the liberty to obtain for you a quote on increase split limit coverage. Through the national automotive insurance provider GEICO, I obtained a split limit quote for both of your vehicles for 150/400/75 for an annual premium cost of $2,300. This would be an increase in annual auto insurance costs of $300, but it would increase your total coverage dollars to $175,000.

Homeowners Insurance:

1. My first recommendation is a must because it will determine if you need to purchase a new HO-3 policy. As of right now, you do not know if your policy has an inflation endorsement. Before moving further in this area of insurance, we need to figure this out. If your policy does have an insurance endorsement, then I recommend maintaining it.
2. If your HO-3 policy does not have an insurance endorsement, then I highly recommend replacing it. Right now your home is valued at $250,000, but you are only covered for a value of $225,000. While a $25,000 deficit is not the end of the world, it will only increase without an inflation endorsement on the policy. Is this is the route that we need to take, I highly recommend a policy via Missouri National Insurance due to your rating being so high. Based on other HO-3 policies with an endorsement that also provide full value coverage on your home, I estimate you will have an increase in annual costs of $150, bringing your homeowners expense to $850.

Umbrella Insurance:

1. The fact that you have an umbrella policy puts you in a better insurance protection position that most people, no matter what kind of coverage they have. I highly recommend keeping your umbrella policy, especially at the affordable price of $175 annually. This extra liability coverage should provide you with excellent peace of mind.

Impact of Recommendations on Cash Flows

Impact of Recommendations on Current Cash Flow

Current P&C Insurance Costs		**P&C Insurance Costs After Recommendation Implementation**	
Automotive	$2,000	Automotive	$2,300
Homeowners	$700	Homeowners	$850
Umbrella	$175	Umbrella	$175
Total Costs	**$2,875**	*Total Costs*	**$3,325**

As it currently stands, your property and casualty insurance protection situation is pretty good. Like always, however, there is room for improvement. Assuming implementation of my current recommendations, including purchase of a new HO-3 policy (assuming your current policy does not have an endorsement), your property and casualty insurance annual costs will rise by $450. While your annual premium costs will rise, your total protection dollars will rise by $200,000. I believe this to be a very prudent investment in your family’s protection.

Non-Retirement Needs and Investments

Overview

In this section we will tackle all of your financial goals, excluding those that deal with your retirement income. I will break down your current savings strategies and analyze if you are on track to achieve these goals. For any goal that you are no on track for, I will make recommendations on how to remedy that. I will include projections as well as covering any and all tax requirements and ramifications for your investment vehicles.

Currently, you have a good amount of money invested, but it is not really earmarked for accomplishing any of these goals. By the end of this section you will see how I believe we should shuffle these around in order for you to achieve these goals.

Goals and Analysis

Provide For Becky's Education:

Based on the information that you have provided me, you estimate that Becky's education will cost about $80,000. Specifically, you have estimated $10,000 in costs per semester at a 'good private university'. Additionally, tuition costs are increasing at 5% annually. I also understand that you are willing to invest in a moderately aggressive portfolio for this goal, provided that it is a tax-advantaged investment, and you can accumulate all of the college savings before Becky begins her higher education so that you can stop saving for it once she begins.

As of today, Becky is five years old. Meaning you have 13 years before she starts school, and thus, will need to have your college savings completed. While this seems like a long time, it really is quite short. But do not worry; this goal can definitely be accomplished.

The first step is to start to put money in a earmarked fund specifically for Becky's education. As of right now, you have a lot of saved money and investment dollars, but nothing set aside for accomplishing this goal specifically. To that end, I recommend starting a 529 plan for Becky. A 529 Plan is operated by a state or educational institution that is designed to help families (like you) set aside funds for future qualified education costs at any accredited college, university, technical, vocational, or graduate school anywhere in the United States. Qualified costs include tuition, room and board, books, supplies, and any other equipment. 529 plans are really attractive options for college savings for a lot of reasons including but not limited to there is no income tax of 529 plan earnings, there is no age limit or income restrictions, tax free withdraws on money used for qualified expenses, federal gift tax incentive, and you can deduct up to $16,000 in income taxes based on your contributions to this plan. The state of Missouri has its own specific 529 plan called M.O.S.T. This plan also allows a lump some contribution if married filing jointly, of up to $150,000.

In reality, you could take out $80,000 from your other investment portfolios (of which you have $158,000) , place it in a 529, and then use it to invest in a low risk, low yield fund, but this would take out quite a large chunk of your investment money and there are easier ways to do it. Based on your other preferences for this fund, I recommend that you take out the $8,000 you have invested in the Sagebrush Fund, all $13,000 invested in the Ruth Fund, and $19,000 from your investments in the Haley G&I fund. These funds will total $40,000, which you will place in your 529 plan for Becky and invest that money in the Konza Fund (additional $10,000), the Value Fund ($20,000), and the Consumer Fund ($10,000). There are additional funds that fit your preference profile (Haley G&I and the Eastside fund), but the projected returns on the three funds I have recommended will leave Becky with the most money for her education. Based on the following calculations*, this investment should leave you with a benchmark amount of $83,396 to spend tax-free on qualified expenses for Becky's education. Although the lump sum deposit into the 529 is higher than the $30,000 threshold for people married filing jointly, we can take advantage of the federal gift tax that allows us to treat this money as if it was spread out over five years, keeping you well below the threshold. Additionally, if Becky should decide that she does not want to attend college, the beneficiary of the 529 can be easily changed, or the funds can be withdrawn, although at that point they will be subject to income taxation.

**Konza Fund:*

Starting Value: $10,000, Pre-tax rate of return: 9.2%, Period: 13 years, SD: 13%

10,000 x 1.092 = k^1 (10,920)

k^1 x 1.092 = k^2

k^2 x 1.092 = k^3

…

k^13 = $21,380

Value Fund:

Starting Value: $20,000, Pre-tax rate of return: 9%, Period: 13 years, SD: 12%

20,000 x 1.09 = v^1 (21,800)

v^1 x 1.09 = v^2

v^2 x 1.09 = v^3

…

v^13 = $41,753

Consumer Fund:

Starting Value: $10,000, Pre-tax rate of return: 8.75%, Period: 13 years, SD: 11%

10,000 x 1.0875 = c^1 (10,875)

c^1 x 1.0875 = c^2
c^2 x 1.0875 = c^3
…
c^13 = $20,263

Please note that these values are projections based off of the funds' average rate of pretax returns. Each of the funds has a standard deviation of over 10% that can increase or decrease the rate of return you see on these investments. This level of risk aligns with your decision to pursue Becky's college savings through a moderately aggressive investment portfolio. Additionally, these calculations are based off of the reinvestment of any earnings through the funds back into the same fund the money was earned from (i.e. if the Konza returns its projected amount of $920, that is reinvested, with the original $10,000 back into the Konza fund).

Art Gallery:

The next important non-retirement specific goal is for Mia to be able to open her Art Gallery in a rented retail storefront at some point. At this point, you have $5,000 in a savings account set aside for this purpose. Additionally, after reallocating the $40,000 needed for Becky's 529 college savings plan, you have $118,000 is investment dollars that are yet to be earmarked.

I believe that we can accomplish your financial goal of obtaining a leased space via these investment dollars. Mia has estimated that this gallery will cost around $80,000 in today's dollars. I feel that this is a very attainable goal with a couple of reallocations. Because this goal is pretty far away, I recommend that you invest in a moderately conservative strategy or a moderately aggressive strategy so that your money can grow enough to cover your expected costs for this art gallery. It is important to note that this investment portfolio will have similar risk to that of your 529 plan.

In order to obtain this goal, I recommend that we earmark $40,000 in investment assets as well as the $5,000 you have in a savings account earmarked for this goal, for a total investment value of $45,000. Assuming your retirement age goal of 62, we will use this as a benchmark to project your investment returns. That gives your investment 20 years to accumulate funds. Unlike the 529 plan, we will have to account for taxes when it comes to the gains on these investments, so our benchmark will be based on the after-tax target return numbers for these investments. Due to the large amount of money needed to obtain this goal, I have found some funds to put your portfolio money into in order to see the best results. With after-tax target returns of 6%, 6.1%, and 7%, these funds have the best potential to see the best returns.

In terms of investment distribution, this recommendation is pretty simple. In order to obtain the needed $40,000, we will reallocate $20,000 from the Konza Fund, and an additional $20,000 from the Haley G & I Fund. I recommend that $15,000 go into each the Companion Fund, the Ely Fund, and the Clock Fund. Based on the projected returns of these funds, at the time Mia turns 62, the earmarked portfolio should be worth $85,917. This is over the target of $80,000, which should allow you to have a bit of a cushion in case of unforeseen expenses or property value increase.

Companion Fund:

Starting Value: $15,000, After-tax target: 7%, Period: 20 years, SD: 13%
15,000 x 1.07 = c^1 (16,050)
c^1 x 1.07 = c^2
c^2 x 1.07 = c^3
...
c^20 = $32,138

Ely Fund:

Starting Value: $15,000, After-tax target: 6.1%, Period: 20 years, SD: 6.05%
15,000 x 1.061 = e^1 (15,915)
e^1 x 1.061 = e^2
e^2 x 1.061 = e^3
...
e^20 = $27,143

Clock Fund:

Starting Value: $15,000, After-tax target: 6%, Period: 20 years, SD: 6.2%
15,000 x 1.06 = o^1 (15,900)
o^1 x 1.06 = o^2
o^2 x 1.06 = o^3
...
o^20 = $26,636

Total projected Returns: $85,917

It should be noted that these are targeted after tax returns, and not guaranteed returns.

Reallocation Results

The recommendations to your investment assets that I have made have included several investment fund reallocations. I have included a break down of the reallocations and how they affect the balance of your portfolio.

Current Investment Breakdown

Name of Investment	*Amount Invested*	*Weight of Portfolio*
EE Bonds	$25,000	15.82%
Ruth Fund	$13,000	8.23%
Haley G&I Fund	$69,000	43.67%
Konza Fund	$43,000	27.22%
Sagebrush Fund	$8,000	5.06%
Total Investment Assets	**$158,000**	-

Investment Breakdown Post-Recommendations

Name of Investment	*Amount Invested*	*Weight of Portfolio*
EE Bonds	$25,000	15.34%
Companion Fund	$15,000	9.2%
Clock Fund	$15,000	9.2%
Ely Fund	$15,000	9.2%
Haley G&I Fund	$30,000	18.4%
Consumer Fund	$10,000	6.13%
Value Fund	$20,000	12.27%
Konza Fund	$33,000	20.25%
Total Investment Assets	**$163,000**	-

Retirement Income Needs and Investments

Overview

In terms of your comprehensive financial plan, this section could easily be considered the most important. Your retirement income will define how you spend the final years of your life. The decisions you make at this point in your life can define whether you spend your retirement years in comfort, or if you spend them just trying to get by. In this section, we will break down the amount of income you will need to accomplish all of your retirement goals, and if you are currently on track to meet those goals. In the areas where you need to make some changes, I will provide recommendations along with projection estimates. I will also include a breakdown of your retirement investment accounts.

Based on the information you have provided and that I have gathered, your retirement goals include a strong desire to both retire at age 62, Tyler would like to volunteer during retirement, Mia's goal to add on the art gallery to your home, the opening of Mia's small art gallery in downtown Springfield, replacing 85% of current before-tax income. Additionally, you plan to take your social security benefits at the earliest opportunity, and you want to leave as much as you can for Becky when you pass. I believe that all of these goals are attainable for you, as long as we prepare and plan for them now. You already have a good start, and with these recommendations, you should be well on your way to living the retirement you have always wanted to live.

Projected Income Needs

In order to live the retirement that you want to live, you estimate that you will need 85% of your current pretax income. In addition to that number, you have additional retirement goals that will cost you an estimated total of $100,000 (20k for home addition gallery and 80k for downtown art gallery). Your current annual pre-tax income is $135,195.88. Based on your current life expectancy, you will need to replace $114,916.50 per year for 33 years if you retire at age 62. This means that at the time you retire, you will need access to **$3,793,143** over your retirement years.

Calculations:

135,195.88 x 0.85 = 114,916.50

Social Security Benefit: $29,400

114,916.50 – 29,400 = $85,517

Future Value 20 Years From Today: 207,733 – 53,100 = 154,633

95 (life expectancy for Tyler and Mia) – 62 (desired retirement age) = 33

154,633 x 33 = 3,693,134

Although that number looks astronomical, it is one that in reality is not as large as it seems.

The next issue we need to tackle is just how exactly we get you to that income replacement point. We will do that through a combination of social security benefits, your retirement contribution plans (401(k)s), and your investment accounts. The next step in this process is analyzing what you currently have in these accounts. To a certain extent we have already analyzed these in your Cash Flow section

Current Retirement Assets

Below is a table of your current retirement investment accounts.

Fund	**Value**	**Rate of Return**	**Weighted RoR**
Tyler's 401(k), Consumer Fund, Graham Fund	$69,000 (Consumer) $134,000 (Graham)	8.75% (Consumer) 4.10% (Graham)	1.26% (Consumer) 1.15% (Graham)
Tyler's Traditional IRA Certificate of Deposit	$52,000	3.50%	0.38%
Mia's 401(k), Rocket Fund	$15,250	14.00%	0.45%
Mia's Rollover IRA, Ruth Fund	$32,500	4.80%	0.33%
Mia's Traditional IRA Certificate of Deposit	$52,000	3.50%	0.38%
Conservative Annuity, Potsdam Fixed Annuity	$125,000	5.00%	1.30%

**Following calculations are based on the assumption that you will both retire at age 62*

Current Total Value of Retirement Assets:
-401(k) Accounts: $218,250
-IRAs: $136,500
-Annuities: $125,000
-Total: $476,750

Projected Value at Retirement Using Current Weighted Average Rate of Return:
-401(k) Accounts: $1,056,465
-IRAs: $379,096
-Annuities: $448,909
-Total: $1,884,470

****Based on your current retirement assets, if you retire at age 62, you will be short $1,908,864 in terms of your retirement goals****

Social Security Benefits:

Retirement Age	Percentage of Social Security Received
62	70%
65	90%
67	100%

In addition to these retirement assets you also have $5,000 in a savings account that is earmarked for Mia's Art Gallery goal. Based on investment strategy provided in the previous section, I recommended that you add this $5,000 into your non-qualified investment funds. Based off of those projections, your $20,000 home addition will be covered with the after-tax earnings.

Current Situation

Tyler and Mia, as of right now, even with the previous section's recommendations you are not saving enough to get where you want to go. Even if we assumed the highest rate of return number (10%), you will fall well short of your retirement and home addition goals. In order to retire at age 62, and have enough money to replace 85% of your income today, you will have to make some changes.

Recommendations

Based on the information and your current situation, you need to reallocate assets and increase savings in order to meet your goals when it comes to your retirement planning. Despite this, it is still possible for you to retire at age 62 with reduced Social Security benefits. You will do this by earmarking $100,000 of non-qualified assets for retirement funding, and increasing your retirement savings by $9,000 (6k into Roth IRA and 3k into employer sponsored accounts) annually. This will quite substantially affect your day-to-day lifestyle, but it is the sacrifice that you will have to make in order to meet these high goals. Additionally, we will shift your current retirement investments to more accurately reflect the moderately conservative rate of 7.75% rather than the conservative rate of 5.25% they are currently at.

There is another option for you to consider, however. Assuming that you reallocate your portfolio to match your expected pre-tax rates of return pre and post retirement (7.75%/ 5.25%), and you continue with your current savings and a 3% annual increase in contributions to employer sponsored accounts, you can save enough to retire at age 65 with out any other changes to your current lifestyle. This plan, along with taking social security benefits starting at age 65, will provide a financial cushion of approximately $500,000 as well as leaving your non-qualified assets for a legacy fund or any other planning needs. These needs can include something like an income short fall due to a loss of job, or an illness, provide Becky with a substantial inheritance, or simply to maintain financial flexibility.

Essentially, you have two options. Option A will require you to change the way you are living now to increase your retirement contributions by $9,000 annually, you will have to make changes to your current retirement portfolios, and you will need to earmark $100,000 of your non-qualified investments (and any returns they make) for retirement income purposes. If you do all of this, you will be able to retire at age 62 with heavily reduced social security benefits. Option B will require you to change your retirement portfolio to meet the moderately conservative RoR of 7.75%, in addition to a 3% increase in annual contributions to employer accounts, and you will be able to meet all of your retirement goals other than your retirement age. This plan will require you to retire at age 65. It will also include only slightly reduced Social Security benefits (90%).

Option A:

Changes to Retirement Investments

Current Fund Name	Value	Transfer Destination
Graham Fund (Tyler's 401k)	$134,000	Ely Fund
Ruth Fund (Mia's Rollover IRA)	$32,500	Ely Fund

By shifting $134,000 in retirement assets from Tyler's 401(k) from the Graham Fund to the Ely Fund, you will more accurately reflect the moderately conservative investment parameters. The Ely fund supplies a before-tax rate of return of 6.1%, a substantial increase on the Graham rate of return of 4.1%, and it also comes with a standard deviation of just 6.05%, which is below the moderately conservative benchmark of 9%. This Standard Deviation number is also well below the Graham Fund's of 12%. Additionally, this fund meets the Beta number requirements of a moderately conservative investment of above 0.80 with a beta of 0.92.

By shifting the $32,500 available via Mia's Rollover IRA from the Ruth Fund to the Ely fund, we increase returns on this sum from 4.80% to 6.10% in addition to higher beta from 0.85 to 0.92. The standard deviation for the Ely fun is higher than that of the Ruth fund, but it still falls below the benchmark for the moderately conservative investment.

In addition to the money that you already have in these accounts, you will need to increase your annual contributions by $9,000. You should do this with an additional $6,000 contributed to the Roth IRA funds and $3,000 contributed towards the 401(k) plans.

The additional $100,000 of non-retirement investment funds that must be earmarked for this option to succeed, will drastically affect your non-retirement investment goals, including Becky's education. With $85,000 of the available $158,000 in investment funds already earmarked, something would have to be sacrificed in order to make this option successful.

Option B (My Recommendation):

Option B will require the same changes to your investment portfolio as Option A (see above), along with a recommended 3% increase into employer sponsored accounts. It will not require the earmarked $100,000 or any changes to the non-earmarked non-qualified/ non-retirement investing you have done. These small changes, along with more Social Security than you would receive in Option A, will provide you with enough funds to live the retirement you want to live, along with an additional $500,000. As mentioned before, this $500,000 can be used for anything you may choose, including leaving it to Becky or for purchasing more art for your future gallery.

Tax Impact

It is important to note that these retirement assumptions are based off of 85% of your current pre-tax income. When you retire, the assumption is that you will be subject to the 25% income tax bracket. This income tax will be taken out of any non-qualified plans, as well as your annuity payments, and your 401(k) plans. Sine you pay taxes on funds deposited into Roth IRAs, those funds will not be subject to income tax when you make withdrawals on those accounts.

Estate Planning

Overview

Estate planning is something that every family needs. Often times, I find clients get scared away by the term *estate* because of the connotation that comes with it. People sometimes do not realize that your personal estate is not a French manor on 17 acres near Versailles, but it is the assets and accounts in your possession. Everyone has an estate, and it is very important to plan how your estate will be passed on when you die. In this section I will go over your current estate situation including your estate documents that you have in place. Then I will go over executor duties and things we should put in place to limit your estate size and thus estate taxes. Finally I will include transfer of wealth projections in the event of either Tyler or Mia's death.

Current Estate Situation

Based on the information and documentation you have provided me with you both have wills that you crafted yourself using a will kit purchased at an office supply store. It is a very straight forward will that leaves everything to the other spouse should one if you die and names Mia's sister Barbara as Becky's guardian should you both pass. Other than these wills, you do not have any other documentation. To that end, you need things like power of attorney documents, especially healthcare power of attorney.

While your wills are a great start, it is important that we get you with a lawyer to get all necessary documents and potentially redraft your will in the case that you would like to add anything. A key element to consider if you choose to redraft your wills is what you would like to happen if you were to both pass away. Right now, the only thing established is that Becky would be put under Barbara's guardian ship, but things like where your estate will go (i.e. trusts) and how you want it to be distributed to Becky need to be hashed out. In my recommendations I will include the best ways of keeping your estate bill for Becky as low as possible.

Estate Planning Assumptions:

-Gross estate appreciation of 4% annually (Assumed to not be a compounding 4%)

-Funeral and administration expenses projected to rise by 4% annually (Assumed to not be a compounding 4%)

-Final expenses total $79,000 in the event of either spouse's death

Gross Estate and Expense Projection

Age at Death	Gross Estate Projection	Expense Projection
42 (Today)	$708,052.40	$79,000
62 (Retirement)	$1,274,494.32	$142,200
95 (Life Expectancy)	$2,209,123.70	$246,480

**Gross estate calculated as net worth, i.e. all assets including fair market value of personal property, minus current liabilities*

The above projection is applicable in the event of either death. The Expense Projection does not take into account any life insurance, estate taxes, or probate expense.

Social Security Benefits:

In the event of Tyler's death, Mia and Becky's social security benefits will be:

-$23,448 annually to Mia after age 67
-$16,765 annually to Mia from age 60 to 66 (28.5% reduction)
-$17,580 annually to Mia until Becky reaches age 18
-$17,580 annually to Becky until her 18th birthday

In the event of Mia's death, Tyler and Becky's social security benefits will be:

-$26,400 annually to Tyler after age 67
-$18,876 annually to Tyler from age 60 to 66 (28.5% reduction)
-$9,552 annually to Tyler until Becky reaches age 18
-$9,552 annually to Becky until her 18th birthday

Probate and Estate Taxes

When it comes to probate, you have mentioned avoiding probate and maintaining privacy as being explicit concerns. It is important that you understand exactly what probate is before we move forward. Probate is the legal process through which a deceased person's estate is properly distributed to heirs and designated beneficiaries and any debt owed to creditors is paid off. In general, probate property is distributed according to the decedent's last will and testament, if there is one, or according to state law if no will exists. Since you both already have basic wills in place, the state laws determining how your property is distributed are not as important. The probate process involves some basic steps that are important to understand. First, Someone is appointed to administer the estate. If there is a will, the administrator is usually named in the will and is called an executor. If there is no will or no executor named in the will, the probate court appoints someone of its choice. Right now, it does not appear that you have a named executor, but you do have expected executor expenses. Next, The will is proven in court to be valid. State law governs the probate process, but since your current will is valid, and we can assist you through the proper channels should you want to draft new wills, this is not a concern. After this, the deceased person's property is inventoried and appraised (which we have already done estimated projections for). Then, all outstanding debts are paid. The above projections include debt estimation, but do not include any mortgage debt. This will have to be considered if mortgage debt is owed at the time of one or both of your deaths. The assets are then distributed according to your will. The issue here is that these assets, their values, and their named beneficiaries, will be public record.

Now that we have an established understand of what probate is and what the process looks like. We can talk about the ways to avoid it. The simplest way is to get rid of all of your property. Obviously this is ridiculous, so this is the last time I will mention it. The much better way of going about this is establishing joint-ownership with rights of survivor ship on your property. This way, when one of you passes away, the other will simply become the sole owner, and the item will never be subject to the probate process. Typically, adding a joint owner will need to be included in taxable gifts on an IRS tax return. There are also some drawbacks when it comes to joint owners going through a divorce. Beneficiary designations are also an effective way to avoid probate. Things like your life insurance policies are already taking advantage of this. By naming a beneficiary, you are essentially bypassing the probate process and immediately passing that asset to the beneficiary's estate. In Missouri, it is legal to name beneficiaries on bank accounts. These designations are known as PoD accounts, or payable on death. Similarly, you can do this with non-retirement investment accounts. The name is slightly different however as they are known as transfer on death accounts. Finally, probably the most effective method to avoid probate is to establish Revocable Living Trusts. An RLT is something that covers three phases of your life, when you are alive and healthy, if you become mentally incapacitated, and after you die. Once a trust is established, you must then retitled your assets in the name of the RLT in order for them to avoid probate. Once you have established, and funded a trust for your assets, then you can rest comfortably knowing that you will not need to worry about putting your beneficiaries, especially Becky, through the long process of probate.

The next expense to consider when it comes to the transferring of your estate is estate taxes. This tax is sometimes referred to as the death tax. If an asset is left to a surviving spouse or a charity, the tax usually does not apply. This section is more about leaving Becky with the most you possibly can. As of 2017, and the Tax Cuts and Jobs Act (of 2017), the maximum amount that can be bequeathed to someone without being subject to estate taxes is $11,180,000. Based on your current estate value, and your projected estate value at the time of a life expectancy death at 95, you will not need to worry about losing value to Becky via estate taxes.

Recommendations

1. Revisit current last wills and testaments with legal professional

First and foremost, I recommend that you meet with a lawyer and look over your last wills and testaments. My firm has a professional relationship with several lawyers in the Springfield area, and I would be happy to refer you to one should you choose. I believe it is important that your wills reflect exactly how you want things to be handled in the case of your death.

2. Establish durable power of attorney for each of you

This step is extremely important. Each of you needs to establish someone to be your power of attorney should you ever become incapacitated. This person will be tasked with making any and all decisions that you will be unable to make yourself. Additionally, this person will make your medical decisions should you be in a state that requires this. For example, if one of you were to become brain dead, it is important that you have an established power of attorney so that person can make medical decisions for you that are in line with your wishes. Again, you will need to meet with a legal professional for this. I would recommend naming each other your agent.

3. Establish a Revocable Living Trust, and then fund it

If you were to die today, you would have over $700,000 in assets that would be subject to the probate process. In order to save you/your beneficiaries the time, money, and privacy concerns associated with this process, you need to retitle your assets in a revocable living trust. This trust is revocable, meaning you will be able to change the beneficiaries of said trust if you ever choose to do so.

4. If you do not want to include your bank accounts and non-retirement accounts in your revocable living trust, establish them as Pay on Death accounts and Transfer at Death accounts

This recommendation will allow your bank accounts and non-retirement investment accounts to be transferred (or paid to) the named beneficiary without being subject to the probate process. This is only needed if you do not title these things into your revocable living trust.

These recommendations will prepare you in the event of either, or both, of your deaths. The revocable living trust will name the other spouse as its beneficiary in accordance with your will, and then will name Becky as the secondary beneficiary. While these recommendations will not lower funeral costs or other final expenses, they will eliminate the $13,500 executor cost.

Post Recommendation Projections

Age at Death	Gross Estate Projection	Expense Projection
42 (Today)	$708,052.40	$65,500
62 (Retirement)	$1,274,494.32	$117,900
95 (Life Expectancy)	$2,209,123.70	$204,360

Final Implementation Summary

Tyler and Mia,

I know that this amount of information, especially financial information, can be totally overwhelming. Because of this, I have taken the liberty of composing a summary of my recommendations, in the order of priority that I have assignment to them.

-Estate Planning Recommendations

These recommendations have first priority due to the fact that the future is always uncertain, and for the sake of you and your family, things like establishing power of attorney, revisiting your Wills and Trusts, and establishing a revocable trust are extremely important.

-Cash Flow Recommendations

Your cash flow is how you make and spend money on a day-to-day basis. Establishing these recommendations will free up cash flow for you to make the other changes that I have recommended. This is why it has second priority behind your estate panning/end of life needs.

-Insurance Recommendations

At my firm, it is our philosophy that you protect your todays, before you worry about your tomorrows. Insurance is extremely important to ensure that you are prepared for what life can throw at you. Additionally, whole life insurance builds cash value, so beginning it sooner is better than later.

-Property and Casualty Insurance Recommendations

Often times, when discussing P&C coverage with clients, they will not leave my office until the feel that they are properly protected. After establishing the above recommendations, it is important to understand how you can be liable and how you are protected.

-Tax Liability Recommendations

The impact of taxes is felt in all areas of your life. After you have ensured that you are protected from what life can throw at you, it is important to have a great plan when it comes to your lax liability. This will not only lower the amount of taxes you owe, but help to ensure that you are paying the correct amount.

-Investing, Retirement and Non-Retirement Recommendations

Finally, the investment recommendations. Investing is an extremely important part of your financial plan. Just because it is given the last priority of the recommendations, does not mean that it is not important. Investing has a lot to do with the future, which is why I gave it last priority. If you do not protect and plan for your todays, or the present, there will be no financial future to prepare for.

Hopefully this summary gives you a good picture of how I recommend that your financial plan be implemented by you.

It was an honor to work with and for you. Like I mentioned earlier, I am happy to help with anything you may need in regards to your comprehensive financial plan. Myself, and all of the resources and other members of The Capitol Financial Planners are at your service. Thank you so much for being valued clients. Tyler and Mia, I wish you the best of luck, and I am looking forward to our first implementation and review meeting!

Clayton Cole Anderson

Clayton Cole Anderson