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Bobek Financial Services LLC

Brian Bobek CFP

A Comprehensive Financial Plan For Tyler and Mia Bedo

Confidential

4/29/20

(Fictitious names used throughout document)

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Mr. and Mrs. Tyler Bedo
727 Success Lane
Springfield, MO

Dear Tyler and Mia:

Financial Planning Engagement Letter

This letter will confirm what services we are to provide which we recently discussed in person. Information forms will be given to you so that you may update us on your personal financial situation as well as your goals. Although we have already discussed this information, it is important that it is up-to-date so that we can make our recommendations accordingly and as effectively as possible.

When we receive this information from you, we will perform a detailed analysis on your financial situation. We will use this information to form recommendations which best suit your needs and goals.

These recommendations will be divided into several parts. Sections that will be covered include cash flow and net worth, taxes, insurance, needs and investments both before and during retirement, and your estate. It should be noted that we are not licensed tax professionals or attorneys, and therefor our recommendations for taxes and your estate should be discussed with your tax professional and/or attorney before being implemented.

These recommendations will be based off of the information you have provided us through both in person discussions, as well as the information forms you have filled out. It is important that you are detailed in the information that you provide us so that we may serve you as best possible.

Any and all information that is given to us, and all of our recommendations given to you, will remain confidential. This information will only be discussed with those who have been approved by you in writing, or as it is required by law.

All recommendations that are made are just that, recommendations. They are to be implemented at your discretion. In this agreement, you will pay a fee for this written analysis and recommendations.

Once you have looked over our recommendations thoroughly, there are follow-up options that are at your discretion. The first follow-up option is service assistance. This includes sending documents to other professionals such as tax professionals and attorneys or other advisors. There is no fee for this service. The next follow-up is product sales. This service includes aid in your acquiring of investments, real estate, and insurance, which help to achieve your goals. Finally, plan implementation assistance, is where we will help you to implement any parts of the plan you wish to receive help. For any aspects of the plan that you choose to implement through us involving financial acquisitions, we will receive commissions when they are due.

It is important to note 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 previously stated, we are not tax professionals or attorneys, and therefor are NOT qualified to prepare legal documents or give legal advice. This also means we are NOT qualified to complete tax returns for you. You should consult an attorney and an accountant for these services.

We feel as a firm that it is important for you to know about us, so that we may have a personal and trusting relationship. We attached with this letter, a brief history of our firm as well as a description of how we operate and our key personnel you will build a relationship with.

We do not wish or expect that we will need to ask anyone else to perform the services that we have agreed to be responsible for, however a situation may occur where this is necessary. If this were to occur, we will only do so with your written permission.

We believe it is important if you elect to continue services with us that you do so with yearly in person meetings supplemented by quarterly updates via email or phone. In order to properly continue our services to the best of our abilities, it is important to maintain a personal relationship throughout the process. The in person meetings will have a change of 60% of the original fee with 15% coming at each quarter. This amount may be adjusted in the future.

At any point, if you are dissatisfied with our services you may cancel this agreement. However, in order to receive a full refund, the cancellation must occur within 5 business days of the accepting the agreement. Any time after this, the fees will be kept according to the time and effort that has been put into the plan thus far, while the remainder will be refunded.

By signing this document you agree that any controversies or disagreements between us will be decided by arbitration as permitted by law. Arbitration will be performed according to the Commercial Arbitration Rules of the American Arbitration Association. The decision of the arbitrators will be final and not subject to appeal.

The fee, which you will be charged, is based on the anticipated amount of work that our firm will perform. The total fee for your financial review is $500.

If you understand and agree to these terms please sign both copies of this letter and return one to us.

Signed: ___________________________________

Date: ______________________________

Bobek Financial Services LLC

A Brief History:

Our firm was started in 2010 in Springfield, Missouri by Brian Bobek. Brian had worked for many years as a financial planning professional and decided to start his own firm. Bobek Financial Services LLC has prided itself, since the beginning, on being devoted to doing the absolute best that we can by our clients. Being smaller firm, BFS has relied on referrals and loyal clients that have built lasting and trusting relationships. Through hard work and dedication to our clients, BFS has become a trusted wealth management in Springfield, MO.

Mission Statement:

CFP professionals, providing sound financial planning services to families. As CFP professionals we are held to a strict ethical standard and strive to provide the best advice we can for our clients.

Vision Statement:

We aim to secure our clients financial future and allow them to rest without worry of their finances. Our goal is to advise clients with ideal recommendations, which will lead them into meeting their financial goals. We do this by fostering a relationship that is built 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 have, 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 (Certified Financial Planning Board, 2020):

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 we as a firm require our professional’s to have received the CFP certification, these 7 principles are the minimum standard that is acceptable to the CFP Board. However, as a firm, we expect that these ethical principals are not only met by our professionals, but are beyond exceeded to the best of our abilities.

Key Employees:

Brian Bobek CFP

Brian has 22 years of experience as a financial planner. He received his CFP certification after completing the GPIDEA program with Iowa State University.

A former college football student-athlete, Brian enjoys all types of sports. Brian also enjoys traveling and experiencing new parts of the world.

Jamie Russo CFP

Jamie has been a coworker of Brian's since before starting BFS. She has 20 years of experience in the field and has been working at BFS since Brian started the firm.
Jamie enjoys being active in her community and volunteers regularly at places such as homeless shelters, animal shelters, and her local church.

Jeff Owens – Director of Operations

Jeff is the director of operations and handles the basic communications on non-advice issues. He has held this position for 5 years and has been working in similar positions for the past 10. Jeff's responsibilities include organizing client meetings, collecting client data, and staying connected to the client in case of any concerns.

Jeff was a former teammate of Brian's in college football. The two have been very good friends since, which is how Jeff got started at BFS.

Privacy Statement:

As a client of BFS, there will be private and personal information that is required to be shared with our firm. At BFS, we understand the how important it is that this information be kept private, and we want to assure you that we do everything that we can to safeguard your information. Sensitive and private information that is usually requested from the client is as follows:

- Name address, and Social Security number
- Financial information including income, expenses, financial statements and account information
- Any other related information that may be relevant to ensuring that we develop the best financial plan we can for you
- Information about any relevant third parties with whom you may be working

This financial information is used strictly by BFS and will not be shared with anyone outside of BFS without your consent, unless required by law.

Executive Summary:

This comprehensive financial plan was designed to be a guide for you to reach your financial goals and objectives. The following sections have highlighted the most important pieces of your comprehensive financial plan, which were formed through and analysis at our firm, using the information that you have provided us. These recommendations are designed to make sure that you stay on the correct course towards meeting your retirement goals, while also protecting you from unforeseen challenges.

Investment Policy Statement

Purpose:

The purpose of this Investment Policy Statement is to have mutual understanding between us at BFS and you, the client, regarding our process of making investment recommendations, implementing recommendations, and periodic reevaluation. The policy explains our investment construction process, based on your investment guidelines, which are determined by your objectives, and your risk tolerance and capacity.

Overall Portfolio Objective:

To accumulate wealth for the purpose of meeting retirement goals and objectives, as well as funding your daughter's education.

Time Horizon:

The time horizon is greater than 10 years for all objectives and will be reevaluated quarterly throughout.

Risk Tolerance and Capacity:

Your risk profile has been identified based on a risk tolerance assessment, as moderately conservative and as such, your investments will be appropriately allocated to match this level. Because your time horizon is greater than 10 years, and your current financial position, we believe that you have the risk capacity to withstand normal market fluctuations.

Moderately Conservative Risk Profile:

- Expected After-Tax Rate of Return: 7.75%
- Beta: <0.80
- Standard Deviation: 9.0

Performance Expectations:

Your portfolio's risk-adjusted performance will be assessed through modern portfolio theory statistics. The benchmark goal will be to maintain a positive alpha, or positive performance relative to benchmark indexes. Past performance of investments is not a guarantee of future performance.

Investment Constraints:

The client has not identified any specific constraints or restrictions on the portfolio. However, it has been agreed upon that there will be consultation between client and advisor before any investment vehicles outside of Equities, Fixed Income, Cash & Cash Equivalents is used.

Client Signature: ________________________________

Advisor Signature: ________________________________

Cash Flow and Net Worth Analysis:

Your current income and expense statement are calculated below. The income and expense statement is designed to show a general how much you have earned and spent in the last year, and compare it to the projections of the subsequent year, once recommendations have been taken into account. The net worth statement looks at your assets and liabilities and reflects your current overall wealth, taking into account all of your assets, rather than just monetary.

Overall, between Tyler's salary and semiannual bonuses, and Mia's Salary, your total income is roughly $139,934.52. Your annual expenses add up to a total of roughly $145,280.14. This leaves an annual deficit of $5,345.62. In order to reach the goals you have set, we will have to work to improve this number. Expenses will need to be cut in order to free up more cash to meet your goals. Your assets total approximately $1,050,150. Your liabilities total approximately $146,228.80. Net worth calculated by subtracting total liabilities from total assets results in your net worth being $903,921.20.

Income and Expense Statement			
Tyler and Mia Bedo			
Year Ended December 31, 2019			
Income		**Expenses Cont.**	
Tyler Salary	$68,466.58	Other Committed Expenses	
Mia Salary	$32,496.00	Medical Copay	$240.00
Tyler Bonuses	$34,233.30	Prescriptions	$240.00
Section 79 Income	$118.14	Dental and Eye Care	$600.00
Other Unearned Income	$4,620.50	Life Insurance Premiums	$2,064.00
Total Income:	**$139,934.52**	Medical Insurance Premiums	$3,600.00
		Umbrella Insurance Premiums	$175.00
Expenses		Disability Insurance Premiums	$300.00
Dedicated Expenses		Other Insurance Premiums	$300.00
Tax Withholdings		Telephone	$1,500.00
Tyler Total Tax Withholding	$31,330.00	Bank Charges	$120.00
Mia Total Tax Withholding	$7,400.04	Personal Care	$1,200.00
Savings and Investments		**Discretionary Expenses**	
Tyler 401(k) Investments	$4,108.00	Entertainment	$2,700.00
Mia 401(k) Investments	$3,249.60	TV	$600.00
Annual Non-Retirement Savings	$13,800.00	Dining Out	$3,300.00
Reinvested Unearned Income	$4,620.50	Recreation	$2,700.00
Housing		Travel	$3,000.00
Real Estate Taxes	$1,675.00	Savings for Art/Gallery	$1,800.00
Homeowners Insurance	$700.00	Gifts to Charities	$5,800.00
Utilities	$4,200.00	Holiday Giving	$1,800.00
Other	$400.00	Home Improvements	$1,800.00
Food/Clothing/Transport		Dues	$1,800.00
Food/Groceries	$5,100.00	Subscriptions	$960.00
Clothing	$2,800.00	Housekeeping Services	$960.00
Auto Maintenance	$1,500.00	Pet Care	$420.00
Auto Insurance Premiums	$2,000.00	Tax Prep Fees	$400.00
Plates/Tags	$450.00		
Loans		**Total Expenses:**	**$145,280.14**
Mortgage	$13,056.00		
Auto	$5,412.00	**Total Deficit:**	$5,345.62
Credit Card/Charge Account	$5,100.00		

Net Worth Statement			
Tyler and Mia Bedo			
February 18th 2019			
Assets		**Liabilities**	
Personal and Real Assets		Current Liabilities	
Home	$250,000.00	Visa Credit Card	$3,500.00
Furnishings	$45,000.00	MasterCard Credit Card	$2,000.00
Four-Door Sedan	$20,000.00		
Minivan	$15,500.00	Long Term Liabilities	
Yard Equipment	$8,000.00	Mortgage	$130,332.39
Jewelry and Collectables	$10,000.00	Auto Loan	$10,396.41
Phil Mickelson signed Calloway Driver	$5,000.00		
Golf Clubs/Sports Equipment	$2,500.00	**Total Liabilities**	$146,228.80
Golf Artwork	$5,000.00		
Aluminum Boat	$5,800.00	**Net Worth**	**$903,921.20**
Monetary Assets			
Savings (Cash Reserve)	$10,000.00		
Checking (Cash Reserve)	$3,500.00		
Money Market Account (Cash Reserve)	$10,000.00		
Checking Account II (Art Gallery/Collection)	$5,000.00		
Life Insurance			
Policy 1 Cash Surrender Value	$8,750.00		
Policy 2 Cash Surrender Value	$8,350.00		
Investment Assets			
Miscellaneous EE Bonds	$25,000.00		
Haley G&I Fund	$69,000.00		
Konza Fund	$43,000.00		
Ruth Fund	$13,000.00		
Sagebrush Fund	$8,000.00		
Retirement Assets			
Tyler's 401(K)	$203,000.00		
Tyler's Traditional IRA	$52,000.00		
Mia's 401(k)	$15,250.00		
Mia's Rollover IRA	$32,500.00		
Mia's Traditional IRA	$52,000.00		
Mia's Annuities	$125,000.00		
Total Assets:	**$1,050,150.00**		

Financial Ratio's:

Financial Ratios aid in understanding the current financial position of a client. They can be compared to benchmarks, which will show quantitatively how the client measures up. These ratios can be used to find problems with the client's financial situation that are not immediately clear.

The first ratio that will be used is the current ratio. This is found by dividing monetary assets by current liabilities. This ratio is a measure of liquidity or in other words, the ability of monetary assets to pay off short-term debt. The benchmark for this ratio is >1. Your current ratio is calculated by dividing $28,500 of monetary assets by $5,500 of current liabilities. At 5.18, your current ratio is well above the benchmark.

Next is the savings ratio. This ratio calculates the personal savings and employer contributions compared to annual income. The benchmark for this ratio is >10% of annual income. Your total of personal savings and employer contributions comes to $24,186.48. This number is 15.64% of your annual income. This meets the benchmark; however, it is yet to be seen if this enough to meet all of your goals.

The Emergency fund ratio calculates how many months emergency funds will cover based on monthly living expenses and monetary assets. You have monetary assets of $28,500 divided by a monthly living expense of $11,721.64. The benchmark for adequate emergency funds is 3-6 months. You have also expressed their goal for having 6 months of emergency funds. Currently they have enough monetary assets for 2.43 months of expenses. This is not adequate, and changes will need to be made to reach your goal.

The debt ratio is a measurement to decide if a client has too much debt. It is calculated by dividing total liabilities by total assets. The benchmark for an adequate debt ratio is less than 40%. You have $1,050,150.00 in assets and approximately $146,228.80 in total liabilities. This means your debt ratio is 13.92%. This is well below the 40% benchmark.

The final ratio used is the long-term debt coverage ratio. This ratio is used to see how many debt payments the client can make based on their current income. It is calculated by taking the clients after tax pay by their total annual long-term debt payments. The benchmark for this ratio is >2.5. Your after-tax income is $96,465.84. Your annual long-term debt payments are $13,056 for your mortgage and $5,412 for your auto loan payments. This total is $18,468. Your long-term debt coverage ratio is 5.22.

Recommendations:

Recommendation 1: Pay off Credit Card Debt

In order to improve discretionary cash flow we believe you should pay off your credit card debt. Credit cards have a high interest rate and result in a large amount of unnecessary yearly expenses. By eliminating credit card debt you should be able to decrease expenses and increase your discretionary cash flow.

Currently you have $5,500 of credit card debt between your Visa ($3,500) and your MasterCard ($2,000). The following table shows the details of your credit cards.

Visa	MasterCard
18.25%	16.75%
Minimum Payment is the greater of 4% or $50	Minimum Payment is the greater of monthly interest charge +1.5% or 50$
140 minimum	60 minimum
Monthly	Monthly
$3,500 current balance	$2,000 current balance

By continuing your current monthly payments of $425, it will take roughly 15 months to eliminate this debt.

Our optimal recommendation is dependent on part of Recommendation 2: Refinance Mortgage. We believe you should eliminate your credit card debt immediately by doing a cash-out refinancing of your mortgage, drawing from the equity of your home. This will fully eliminate your credit card debt and allow it to be added to your refinanced mortgage at a significantly lower interest rate. This cost will only add roughly $29 to your monthly mortgage payment while eliminating your monthly credit card payments of $425, saving you nearly $400 per month.

The other option you have is to increase your monthly payments. This will eliminate the debt faster, and once it is paid off, it will free up more discretionary cash flow. However, it will not free up discretionary cash flow as quickly as the cash-out mortgage refinancing.

Recommendation 2: Refinance Mortgage

Today's average interest rates are considerably lower than when you originally received a your mortgage for $150,000 over 30 years, at a 7.875% interest rate. With this in mind, it is advisable to consider refinancing when a mortgage rate would be 1% or 2% lower than your current rate. Since the average rate is

currently 4.73% for a 30 year fixed mortgage, over 3% lower than your current rate, it is advisable to consider this option.

The benefits of refinancing your mortgage include reducing your monthly payment, reducing the total interest you will pay, and taking equity out of your home. Refinancing also has a downside, as it will require a 3% closing cost. The closing costs can be paid for by including them in the mortgage, or by paying for them from assets. Both will be analyzed. We are recommending going with a 30-year mortgage because it will have significantly lower payments than a 15 or 20-year mortgage. This will increase discretionary cash flow more. If you would like to pay off your mortgage by retirement in 20 years, this can likely still be accomplished, as you will be able to pay some ahead of time.

Option 1: Refinancing with Closing Costs Included in the Mortgage (Credit Card Debt not included).

This refinance would be 30 years at 4.73% (the current average rate) with a loan of $134,242. This would have a monthly payment of $698.65. This would save about $388.95 per month from your current payments. It also would save $9,070.09 in total interest over the life of the loan.

Option 2: Refinancing Without Closing Costs Included (Credit Card Debt not included)

This refinance would again be 30 years at 4.73% but with a loan of $130,332 (the balance of your current mortgage). The monthly payment would be $678.30, saving roughly $409.3 per month from your current payments. It would also save about $12,485.83 of interest over the life of the loan.

Option 3: Refinancing With Closing Costs Included and Additional $5,500 to Eliminate Credit Card Debt

This refinance would once again be 30 years at 4.73%. This time the loan would be $139,907. This would have a monthly payment of $728.14, saving roughly $359.43 per month from your current payments. This also would save $4,121.18 in total interest over the life of the loan (this does not include the interest that would be saved on the credit card payments).

Ultimately we believe the best choice for recommendation is option number 3. This will eliminate credit card debt immediately without adding too much to your mortgage payments. This will also lower your monthly payments a significant amount. Both of these things will immediately increase your discretionary cash flow, which will help you accomplish your goal of a 6-month emergency fund in 2 years. Overall with option 3, your yearly cash flow should increase by roughly $9,413.16 considering the reduced monthly costs of your mortgage and credit card payments of $784.43 per month.

Recommendation 3: Move Remaining Cash Flow into Savings for Emergency Fund

Once, all sections of the plan have been addressed, and if the plan is implemented as we have recommended, there will be a significant surplus at the end of the following year. This surplus should go towards meeting your goal of having an adequate 6 month emergency fund.

2019 Tax Analysis:

Before calculating your taxes, we needed to calculate how much income you have received. You have received income through other ways than just salary and bonuses, which comes in the form of unearned income. For tax purposes, it is necessary to account for the total amount of unearned income. Each of your investments that you received unearned income through is calculated below. To make these calculations you take the current yield of each fund and multiply it by the market value of that fund. The total unearned income is calculated by adding these together. The miscellaneous EE bonds are not added because these are deferred.

The taxable interest on the Haley G&I Fund is 3.2% of $69,000, totaling $2,208.00. The taxable interest on the Konza Fund is 1.75% of $43,000, totaling $752.50. The taxable interest of the Ruth Fund is 4% of $13,000, totaling $520.00. Lastly, the taxable interest on the Sagebrush Fund is 0.5% of $8,000, totaling $40.00. The total taxable interest of your non-retirement investments is $3,520.50.

There were also 2 savings accounts bringing in unearned income. Your savings account has $10,000 with a current yield of 3% bringing the taxable interest to $300. The money market account also has $10,000 with a current yield of 3% adding another $300 to taxable income. Finally, you should add in dividends from your life insurance policies, each one of the two at $250, totaling $500. All of this unearned income should be added together to get the total of $4,620.50.

Your Section 79 income is also considered unearned income. This is the amount of premium paid to cover each of your group term life policies in excess of $50,000 that is tax free under IRC Section 79. The total is $118.14. At this time you do not have a state tax refund, so it should not be added in.

Income	
Wages and Bonuses	$135,195.88
Taxable Interest and Ordinary Dividends	$4,620.50
Section 79 Income	$118.14
State Tax Refund	$0.00
Total Income	$139,934.52

The Form 1040 should be filled out as follows to lead you to your total federal taxes for the year. You should include both of your salaries and Tyler's bonuses, totaling $135,195.88. You should fill in the total you just added up from your interest calculated above as $4,620.50. Additionally, you should add in your

Section 79 income of $118.14. This should total $139,934.52. You should then reduce this amount by the amount contributed to each of your 401(k)'s, as well as your section 125 plan premiums and Mia's disability premiums, as these are qualified under IRC section 125. This will get you your adjusted gross income (AGI) of $127,906.92.

Above the Line Expense Adj.	
Qualified Investments	$7,357.60
Section 125 Plan	$3,600.00
Mia's Pretax Disability Benefits	$300.00
Total Above the Line Expense Adj.	$11,257.60
AGI	$128,676.92

Next you choose between itemized or standard deduction. For 2019, the standard deduction for married filing jointly is $24,400. We recommend the standard deduction for you, as you can deduct more than what is calculated for itemized deductions and shown in the table below. You should report the amount of state income taxes withheld on your W-2, which should be $5,892. If you were choosing itemized deductions, you would report the following items in your Schedule A to calculate the total, which should then be reported on the 1040. But again, we recommend taking the standard deduction for married filing jointly of $24,400.

Itemized Deductions	
Mortgage Interest	$10,378.97
Charitable Contributions	$5,800.00
State Tax	$5,892.00
Real Estate Tax	$1,675.00
Itemized Deduction Total	$23,745.97

Now we look back at your 1040. This should to bring your taxable income to $104,276.92. Following this, your federal income tax should be calculated. Your marginal rate is 22%, which means you should be taxed $9,086 plus 22% in excess of $78,950 taxable income. This total should be $14,657.92.

Taxable Income	
AGI - Deductions =	$104,276.92
Federal Taxes	
$9086.00 + 22% in excess of $78,950	$14,657.92

Missouri State Taxes:

Next is your Missouri State Form 1040A to calculate your state taxes. Your AGI from the federal form 1040 should be used as your Missouri AGI. You should then select married filing jointly and add a dependent exemption for a total exemption amount of $1,800. You should then elect to use the standard deduction which matches the federal standard deduction. The itemized deductions would be the same amount as calculated earlier for the federal itemized deductions, except you would need to add back state taxes. According to the Missouri Department of Revenue's website, with the Missouri standard deduction, your state taxable income would be the same as your federal taxable income with an additional $1,800 exemption bringing the total to $102,476.92 (Missouri Department of Revenue, 2020). Your state taxes paid should be 5% of that, which is $5,123.85. This is shown in the table below.

State Tax	
Federal AGI	$128,676.92
Missouri AGI	$128,676.92
Standard Deductions	$24,400.00
Exemption	$1,800.00
Missouri Taxable Income	$102,476.92
Missouri State Taxes (5%)	$5,123.85

FICA Taxes:

Last, are your FICA taxes. Your FICA taxes are made up of Social Security taxes at 6.2% and Medicare taxes at 1.45% totaling 7.65%. These taxes are calculated by reducing your income by qualified expenses including section 125 contributions, employer sponsored health care premiums, and other pretax benefits, which in your case includes Mia's long-term disability premiums. Additionally, your unearned income should NOT be included. However, your 401(k) contributions are subject to FICA taxes.

FICA Tax	
Income	$135,195.88
Section 125	$3,600.00
Mia's Disability Premiums	$300.00
Taxable Income	$131,295.88
FICA Taxes	$10,044.13

Recommendations:

Your withholding for federal income tax is too high. You should reduce the amount being withheld in the future in order to have immediate access to this money rather than receiving it in a refund. Your current federal withholding of $22,178 should be reduced closer to the level you will pay. For the current year, you should receive a refund of $7,520.08. This will add a significant amount of additional discretionary income. In order to change your federal income tax withholding, you should fill out a form W-4 and submit it to your employer. It is a good idea to double check your withholding amount any time your financial situation changes, as it is possible your withholding amount will also change with it.

Your state withholding is $5,892. This is a little bit more than the amount you should have paid. The amount I have calculated that you should have paid for this year is $5,123.85. This means you should receive a refund of $768.15.

Last your FICA withholdings total $10,286.04. I have calculated that you should have paid 10,044.13. Again, you should receive a small refund, this time in the amount of $241.91. In total, you should receive tax refunds adding up to $8,530.14.

2020 Tax Projection:

This is the revised Tax Analysis assuming that you have followed through with all of the recommendations that we have made throughout the rest of this comprehensive financial plan.

Before calculating your taxes, we needed to calculate how much income you will received. You will receive income through other ways than just salary and bonuses, which comes in the form of unearned income. For tax purposes, it is necessary to account for the total amount of unearned income. Each of your investments that you received unearned income through is calculated below. To make these calculations you take the current yield of each fund and multiply it by the market value of that fund. The total unearned income is calculated by adding these together. The miscellaneous EE bonds are not added because these are deferred.

The taxable interest on the Haley G&I Fund is 3.2% of $28,000, totaling $896.00. The taxable interest on the Konza Fund is 1.75% of $17,000, totaling $297.50. Lastly, the taxable interest of the Ruth Fund is 4% of $8,000, totaling $320.00. The total taxable interest of your non-retirement investments is $1,513.50.

There were also 2 savings accounts bringing in unearned income. Your savings account has $10,000 with a current yield of 3% bringing the taxable interest to $300. The money market account also has $10,000 with a current yield of 3% adding another $300 to taxable income. Finally, you should add in dividends from your life insurance policies, each one of the two at $250, totaling $500. All of this unearned income should be added together to get the total of $2,613.50.

Your Section 79 income is also considered unearned income. This is the amount of premium paid to cover each of your group term life policies in excess of $50,000 that is tax free under IRC Section 79. The total is $118.14. At this time you do not have a state tax refund, so it should not be added in.

Income	
Wages and Bonuses	$135,195.88
Taxable Interest and Ordinary Dividends	$2,613.50
Section 79 Income	$118.14
State Tax Refund	$0.00
Total Income	$137,927.52

The Form 1040 should be filled out as follows to lead you to your total federal taxes for the year. You should include both of your salaries and Tyler's bonuses, totaling $135,195.88. You should fill in the total you just added up from your interest calculated above as $2,613.50. Additionally, you should add in your Section 79 income of $118.14. This should total $137,927.52. You should then reduce this amount by the amount contributed to each of your 401(k)'s, as well as your section 125 plan premiums and Mia's disability premiums, as these are qualified under IRC section 125. This will get you your adjusted gross income (AGI) of $126,669.92.

Above the Line Expense Adj.	
Qualified Investments	$7,357.60
Section 125 Plan	$3,600.00
Mia's Pretax Disability Benefits	$300.00
Total Above the Line Expense Adj.	$11,257.60
AGI	$126,669.92

Next you choose between itemized or standard deduction. For 2020, the standard deduction for married filing jointly is $24,800. We recommend the standard deduction for you, as you can deduct more than what is calculated for itemized deductions and shown in the table below. You should report the amount of state income taxes withheld on your W-2, which should be $5,892. If you were choosing itemized deductions, you would report the following items in your Schedule A to calculate the total, which should then be reported on the 1040. But again, we recommend taking the standard deduction for married filing jointly of $24,800.

Itemized Deductions	
Mortgage Interest	$10,378.97
Charitable Contributions	$5,800.00
State Tax	$5,892.00
Real Estate Tax	$1,675.00
Itemized Deduction Total	$23,745.97

Now we look back at your 1040. This should to bring your taxable income to $101,869.92. Following this, your federal income tax should be calculated. Your marginal rate is 22%, which means you should be taxed $9,086 plus 22% in excess of $78,950 taxable income. This total should be $14,128.38.

Taxable Income	
AGI - Deductions =	$101,869.92

Federal Taxes	
$9086.00 + 22% in excess of $78,950	$14,128.38

Missouri State Taxes:

Next is your Missouri State Form 1040A to calculate your state taxes. Your AGI from the federal form 1040 should be used as your Missouri AGI. You should then select married filing jointly and add a dependent exemption for a total exemption amount of $1,800. You should then elect to use itemized deductions. This should be the same amount as calculated earlier for the federal itemized deductions, except you will need to add back state taxes. The total deductions should bring your taxable income to $100,069.92. Your state taxes paid should be 5% of that, which is $5,003.50. This is shown in the table below:

State Tax	
Federal AGI	$126,669.92
Missouri AGI	$126,669.92
Itemized Deductions	$24,800.00
Exemption	$1,800.00
Missouri Taxable Income	$100,069.92
Missouri State Taxes (5%)	$5,003.50

FICA Taxes:

Last, are your FICA taxes. Your FICA taxes are made up of Social Security taxes at 6.2% and Medicare taxes at 1.45% totaling 7.65%. These taxes are calculated by reducing your income by qualified expenses including section 125 contributions, employer sponsored health care premiums, and other pretax benefits, which in your case includes Mia's long-term disability premiums. Additionally, your unearned income should NOT be included. However, your 401(k) contributions are subject to FICA taxes.

FICA Tax	
Income	$135,195.88
Section 125	$3,600.00
Mia's Disability Premiums	$300.00
Taxable Income	$131,295.88
FICA Taxes	$10,044.13

Life Insurance:

Life insurance is purchased to ensure that in the event of the untimely passing of a family member who supports the family financially, the family will be able to continue to live the lifestyle they have chosen, and otherwise would have had, if the family member had not passed.

There are two basic types of life insurance: Term Life, and Whole Life. Term life insurance is simple, there is a premium paid (either fixed or increasing) for a given period of time (1-30 years), and in return a benefit (either fixed or decreasing) is paid to a beneficiary in the event of an untimely death of the covered individual during the predetermined time period. A whole life insurance policy on the other hand, has a fixed premium, a growing cash value, and also allows for loans to be taken out against the cash surrender value.

Your Current Life Insurance Situation:

	Tyler	Mia	Tyler	Mia
Type of Policy	Whole Life	Whole Life	Group Term	Group Term
Insurance Company	Manhattan Insurance Company	Manhattan Insurance Company	Great Plains Assurance and Protection Corporation	Great Plains Assurance and Protection Corporation
After-Tax Rate of Return	5.50%	5.50%	0%	0%
Death Benefit	$100,000	$100,000	1x salary (Not including Bonus)	4x salary (not including bonus)
Cash Value	$8,750	$8,350	$0	$0
Annual Premium	$1,104	$960	Employer Paid	Employer Paid
Tyler Total Coverage = $168,466.80				
Mia Total Coverage = $229,984.00				

A tool used to calculate the cost-effectiveness of a cash value life policy is the yearly price per thousand method. The YPT method is used to determine whether you should maintain or replace a policy. The benchmark for individuals between the ages of 40-44 is $4.00 per $1000 of coverage. If a policy is below the benchmark, it should generally be kept, and if a policy is above the benchmark but less than 2x the benchmark, it should still be maintained. Only when a policy is over 2x the benchmark, should it be replaced. The current YPT of Tyler's whole life policy is $4.89, while the current YPT of Mia's whole life policy is $3.54.

Yearly Price Per Thousand			
	Your Ratios	Benchmark	Replacement Mark
Tyler	4.89	4.00	8.00
Mia	3.54	4.00	8.00

Life Insurance Assumptions:

- Assets available at Tyler's passing include his IRA and 401(k) plan
- Assets available at Mia's passing include her IRA and 401(k) plan, annuity, and rollover IRA
- You also are willing to make $100,000 of nonretirement investment assets toward survivor needs
- You will need $115,000 in before-tax yearly income, in today's dollars, to fund total household expenses at the passing of either Tyler or Mia, all the way through retirement
- Any cash settlements upon the passage passing of either of you will be invested in a moderately conservative portfolio before and through retirement
- In addition, in the event of either of you passing the surviving spouse's retirement portfolio will be reallocated at a before-tax moderately conservative rate of return as well (all investments will be assumed to have a 7.75% before tax rate of return)
- You would like to prefund retirement for the surviving spouse should one of you pass
- Your final expenses total $131,000 and include, $20,000 for final debts, $1,500 for final illness costs, $9,000 for funerals, $13,500 for estate administration costs, $10,000 for other short-term needs and $25,000 for a spousal adjustment period
- You would like the mortgage to be immediately paid off in the event of an early passing
- In the event of Tyler's death, social security benefits will be paid to Mia and Becky as follows:
  - $23,448 yearly to Mia after age 67
  - $17,580 additional yearly to Mia until Becky turns 18

    - $17,580 yearly to Becky until age 18
    - $16,765 yearly to Mia from age 60-67
- In the event of Mia's death, social security benefits will be paid to Tyler and Becky as follows:
    - $26,400 yearly to Tyler after age 67
    - $9,552 additional to Tyler until Becky turns 18
    - $9,552 to Becky until age 18
    - $0 to Tyler from age 60-67
- Should either spouse pass, the surviving spouse plans to retire at age 60 and take early retirement survivor benefits
- For conservative planning purposes, you do not plan to use interest or dividends as an income source when planning insurance needs
- The capital retention replacement ratio is assumed to be 100%
- (All calculations for life insurance can be found in Appendix B)

Life Insurance Needs Analysis:

Based on the information you have given me, your total need for life insurance is $1,080,496.88 and $770,998.46 for Tyler and Mia respectively. This total is not accounting for your current life insurance policies. After subtracting the amounts of your current policies, you still need $912,030.30 and $541,014.46 for Tyler and Mia respectively. The calculations for these amounts can be found in Appendix B.

Recommendations:

All of your current life insurance policies should be maintained. Although Tyler's whole life policy's YPT is above the benchmark, it is not two times the value of the benchmark, and therefore should still be maintained. After accounting for your current policies, you still have a remaining life insurance need for $912,030.30 for Tyler, and $541,014.46 for Mia. I recommend buying a 20-year level premium term life insurance policy for each of you, as it will be the cheapest option. This option will have a constant premium throughout the life of the policy, and will have a decreasing death benefit. Because your policy is intended for income replacement, the longer you work and the closer you are to retirement, the less you will need to replace. In order to cover these policies, your premiums will be roughly $75 dollars per month for Tyler and $40 per month for Mia, totaling only $1,380 per year (Fritz, 2020).

Disability Insurance:

There are a few different definitions to consider regarding disabilities. Each of these definitions shows how insurance companies will define whether or not an individual has become disabled and if they are eligible receive the benefits promised in a disability insurance contract.

- Own Occupation – This definition of a disability means that the insured is eligible for benefits if they are unable to perform the duties in their own current occupation. If the insured can perform some duties of another occupation, they are still eligible.
- Modified Own Occupation – This is nearly the same as own occupation, except in this case the insured must not be working at all to be eligible to claim benefits.
- Any Occupation – The insured is only eligible for benefits if they cannot perform the duties of any occupation. This is the least expensive policy, but also the strictest in terms of becoming eligible for benefits.
- Modified Any Occupation – The insured is eligible for benefits if they cannot perform the duties of any occupation, they are deemed to be reasonably qualified for through education, training, or experience.

More Important Definitions:

- Elimination Period – The period of time the insured must wait after becoming disabled to begin receiving benefits.
- Benefit Period – The length of time a benefit can be paid

There are also two types of disability insurance to consider:

- Short-Term Disability Insurance – Begins coverage after all personal days have been used and typically is coordinated with a long-term disability policy to last as long as the long-term policy's elimination period, although it can be up to 2 years.
- Long-Term Disability Insurance – Begins coverage after an elimination period, the most common of which is 90 days. Many long-term policies have a benefit period until the insured is age 65.

Your Assumptions:

- You will receive no Social Security disability benefits.
- You plan to continue to save for other financial planning goals in the event of a disability.
- Any cash settlements received will be investing using a moderately conservative asset allocation approach.

Your current Disability Insurance Outlook:

	Tyler	Mia	Tyler	Mia
Type of Policy	Group Short Term	Group Short Term	Group Long Term	Group Long Term
Insurance Company	Mid-America Disability Assurance Corporation	All-World Life and Disability Company	Mid-America Disability Assurance Corporation	All-World Life and Disability Company
Wait Period	0 Days	0 Days	90 Days	90 Days
Benefit Period	90 Days	90 Days	To age 65	To age 65
Disability Benefit	100% of Salary and Bonus	100% of Salary and Bonus	60% of Salary and Bonus	70% of Salary and Bonus
Definition of Disability	Own Occupation	Own Occupation	Own Occupation	Modified Own Occupation
Premium Amount	Company Paid	Company Paid	Company Paid	$25 monthly (pre-tax through employer)

Recommendations:

The fact that you have group short-term disability and group long-term disability policies set up through your employers is great. I would not recommend changing these policies. However, you have stated that you would like to continue to save for other financial planning goals in the event of a disability. Currently, you both would be covered for 100% of salary and bonus for only 90 days. In the event of a disability lasting longer than 90 days, your benefits would decrease to 60% for Tyler and 70% for Mia. And because these policies are either employer paid or paid for with pre-tax dollars, the benefits will be taxed as ordinary income. The coverage of these policies alone will put your financial plan at risk in the event of a long-term disability.

Because you would like to continue to save for all of your other financial planning goals in the event of a disability, I am recommending you purchase supplemental long-term disability insurance policies that will cover the gaps in your current policies relative to your current income. Because these supplemental policies will be paid for with after-tax dollars, the benefit will be tax free and therefor the coverage will not need to get you quite up to 100% of your pre-tax salaries and bonuses. I recommend that Tyler and Mia purchase supplemental policies to cover 35% and

25% of your salaries respectively. With these supplemental policies in place you will be able to have peace of mind that any disability will not prevent you from being able to earn your full after tax-income and continue to save for all of your financial planning goals. Together, these policies will cost roughly $100 per month, or $1200 per year.

Health Insurance:

Regarding your health insurance the only point that needs to be discussed is contributing to the flexible spending account. There is not much we else we can do since this is the health insurance offered through your employer.

Flexible Spending Account (FSA) (Healthcare.gov, 2020):

- Contributions are deducted from paycheck pre-tax
- Contribution limit of $2,650 per year, per employer
- Can be used to pay for certain medical and dental expenses like deductibles, copayments, prescriptions, other doctor approved OTC medicine, as well as some other miscellaneous medical expenses (crutches, bandages, diagnostic devices, etc.), but not insurance premiums
- All contributions not used throughout the year are lost with the exception of 2 optional provisions that your employer can choose offer 1 of, but is not required to offer either and they cannot offer both.
    - Your employer can allow a 2 ½ month grace period into the next year, where you will be able to use the remaining balance in your FSA
    - Your employer can allow a $500 carryover of your balance from one year to the next.

Recommendations:

Looking at your income and expenses, it appears as though you estimate spending roughly 90 dollars per month on qualifying medical expenses ($50 on dental and eye care, $20 on copayments, $20 on prescriptions). This means you spend roughly $1,080 per year on qualifying medical expenses. Considering this I recommend that you contribute $1,080 a year into your FSA.

Additionally, I believe you should look further into your company's FSA optional provisions to see if there is either a 2 ½ month grace period or $500 carryover offered. If either of these are offered, I recommend you contribute an additional amount.

Because there were not many details given regarding your employer's FSA option and the provision that may be included, it is difficult to say how much you should contribute to it. Assuming that your employer offers the $500 carryover provision, I recommend contributing your expected costs, which are $1,080, plus an additional $500, totaling $1,580. This will ensure that even if you have more expenses than expected, you will have $500 more to use, which can also be carried over in the event that it is unused.

Long-Term Care Insurance:

Long-Term Care (LTC) Insurance is designed for people who need assistance in daily living for an extended period of time. This can range from day-to-day living activities, to full 24-hour assistance and supervision. In order to qualify for LTC benefits, the insured must be considered chronically ill. Being chronically ill is defined as needing substantial assistance on at least 2 of the following 6 day-to-day activities for at least 90 days. Those 6 activities are:

1. Eating
2. Bathing
3. Dressing
4. Transferring from bed to chair
5. Using the toilet
6. Maintaining continence

More substantial services are required to protect individuals who have severe cognitive impairments like Alzheimer's, strokes, or other causes of brain damage.

LTC policies usually have a defined benefit period, in which the benefit will only be paid for a specified amount of time. Some individuals choose to have coverage for longer periods or even for unlimited lengths of time. The longer the period, the more expensive the premium is. Some other policies use the pool-of-money approach. In this approach, the insured is able to receive a specific dollar amount. The benefit period will last as long as those dollars are available for use.

Below is a list of the services covered in LTC:

- Skilled nursing care – the highest level of care provided every day; typically provided in nursing homes
- Intermediate nursing care – skilled care is provided occasionally rather than daily
- Custodial Care – Traditional nursing home care; does not need to be ordered
- Home health care – In-home part time skilled nursing care, rehabilitation care, or other necessary assistance
- Assisted living – Apartment style housing with support services available for individuals who need help throughout the day
- Adult day care – for people who need assistance and supervision throughout the day
- Hospice care – Care for terminally ill; typically in-home, in a hospice care center, or a nursing home.

Some assumptions about LTC services:

- Annual nursing home expenses in your area are currently $49,000
- The average age for entering and assisted living facility is age 75 and the average stay is 2 ½ years
- The average age of those entering a nursing home is age 83, with an average stay of 1 ½ years

- Long-term care expenses have been increasing at 5.0% per year
- Household expenses will be $115,000 per year (in today's dollars) in the event either of you enters a nursing home
- Assets used for funding LTC expenses will grow at 5.5% after tax per year
- LTC Premiums will cost around $1,200 for each of you to cover your need of $49,000 per year for 3 years.

Recommendations:

Based on the above information, and because you are in such good health, I recommend that we reevaluate this situation at age 50. Long-term care insurance can be expensive and I would not expect any need for it within the next few years. The cost of your premiums will also not go up very much over the next few years meaning there is no advantage regarding cost to purchase LTC insurance now as compared to 8 years from now.

Additionally, provided that we have done an adequate job building an emergency fund and have properly implemented supplemental long-term disability policies, we can ride out the storm in the unlikely event that long-term care is needed before we revisit the issue. It is important to keep in mind Mia's family history of cancer. If you disagree with this recommendation, I would encourage that we discuss this point further.

Property and Casualty Insurance:

Assumptions:
Auto:
Tyler and Mia have split limit coverage of 100/300/50 on both of their cars, in addition to $100,000 of uninsured/underinsured motorist coverage. Automobile insurance is provided by Missouri Valley Insurance Corporation (A.M. Best Rating: A). Deductibles are $500 for comprehensive coverage and $500 for collision coverage. This insurance includes medical payments, car rental coverage, and towing.

Home:
The Bedo's currently have an HO-3 policy with a $100,000 liability limit that provides replacement value on contents through an endorsement underwritten by Missouri National Insurance (A.M. Best Rating: A). Their home is currently insured for $225,000. They do not know if their policy has inflation endorsement. The deductible is $500. The premium is $700 per year.

Three years ago, their insurance agent recommended that they purchase a $500,000 umbrella insurance policy. The premium for the policy is $175 per year.

Automobile Insurance:

A personal automobile policy (PAP) provides protections for 3 major losses:
1. Damage to or loss of the insured's vehicle
2. Injury to the insured or family members
3. Legal liability for personal injuries and damages to property

PAPs are made up of 6 parts:
1. Part A: Liability Coverage – Part A provides bodily injury and property damage protection, up to the policy limit, for which the insured is legally responsible.
2. Part B: Medical Payments – Part B provides payment for the reasonable and necessary medical expenses of the insured as a result of an automobile accident. These expenses must be incurred within 3 years of the incident. Limits are on a per person, per occurrence basis.
3. Part C: Uninsured Motorists – Part C pays for what an uninsured and at-fault driver's liability insurance would have paid for, had they had insurance. While liability insurance is required for drivers in most states, these laws are often ignored. Part C does not cover underinsured motorists, therefore an underinsured motorist endorsement is required to cover additional expenses.
4. Part D: Coverage for Property Damage to Your Auto – Part D provides coverage on any direct damage on any covered auto and any non-owned auto. This is made up of two parts: 1) Collision and 2) Comprehensive.

Collision covers damages from an accident involving other vehicles or objects. Comprehensive covers damages from accidents out of the insured's control such as falling objects, theft, natural disasters, etc.

5. Part E: Duties After an Accident or Loss – The insured must file a police report for appropriate situations such as theft or hit-and-run to receive coverage.
6. Part F: General Provisions – Standard contractual language and states that the insured only has coverage within the United States, its territories and possessions, and Canada.

Current Coverage:
You currently have split limit coverage of 100/300/50 on both of your cars, in addition to $100,000 of uninsured/underinsured motorist coverage. Your automobile insurance is provided by Missouri Valley Insurance Corporation. Deductibles are $500 for comprehensive coverage and $500 for collision coverage. This insurance includes medical payments, car rental coverage, and towing.

Recommendations:
In order for you to be eligible for umbrella insurance, you need to have a minimum of 100/300/100 coverage. We will be recommending umbrella insurance, the specifics of which will be discussed later in this section.

I believe that for your situation you should increase your coverage above the minimums required for umbrella coverage. I recommend you increase coverage to 250/500/100 because you are a high net worth individual.

There are a couple of discounts available to reduce premiums as well. The first is a multi-car discount, which you will receive for covering both of your cars. Additionally, I recommend you purchase your home and umbrella policies from the same insurer in order to receive a multi-policy discount as well (Nerdwallet, 2018). Lastly, in order to further reduce premiums, I recommend you increase your deductibles from $500 on both collision and comprehensive insurance to $1,000 each. This will require you add more to your emergency fund to cover the additional amount in your deductible. However, since you have good driving records, I believe this strategy will be cost effective in the long-term.

Your auto insurance policies will cost a total of $1,000 semiannually for the two of you after discounts. This will be the same as your current auto insurance rates, with additional coverage.

Homeowner's Insurance:

Structure of a Homeowner's policy:

- Coverage A: Dwelling – Repair or replacement of damage to the dwelling and any attached structures, such as a garage or deck. Generally speaking, an advisor should recommend coverage of 100% of the replacement cost of a home. (It should be noted that the replacement cost is different than the fair market value. The replacement cost is the actual cost to replace, whereas the fair market value is the price at which an exchange will take place.)
- Coverage B: Other structures – protection for small detached structures on the property such as a storage shed. Limit typically 10% of Coverage A limit.
- Coverage C: Personal Property – Personal belongings possessed by the policy owner and any resident family members. Limit is typically 50% of Coverage A limit.
    - Standard policies provide the actual cash value for Coverage C. This is the depreciated value according to an internal insurance table.
    - Certain kinds of personal property have maximum dollar limits in standard policies (e.g. jewelry has a limit of $1,500).
    - Exclusions:
        - Animals, birds, fish
        - Motorized land vehicles used off the premises
        - Property of roomers of boarders not related to the insured
        - Articles specifically described and specifically insured (e.g. a larger boat)
        - Credit cards
- Coverage D: Loss of Use – Reimbursement for **additional** living expenses incurred living elsewhere while the home is being repaired, typically limited to 20% of Coverage A.
- Coverage E: Personal Liability – Protects against personal liability for bodily injury and property damage that may occur on or off the premises due to negligence. Policies today typically have a minimum limit around $300,000
- Coverage F: Medical Payments to Others – Pays necessary medical expenses of others that result from bodily injury arising out of the insured's or the insured's animals' activities on or off the premises. Generally up to $1,000 per person per occurrence.

6 Basic HO Policy Types:

- HO-2: Broad Form (Named Perils) – provides broad coverage for dwelling and personal property; broadens certain perils and adds other perils

- HO-3: Special Form (Open Perils) – most common form; real property covered on an open perils basis unless specifically excluded; personal property on a named perils basis.
- HO-4: Contents Broad Form (Tenants or Renters) - personal liability coverage and coverage for contents and loss of use for tenants that do not own the property
- HO-5: Comprehensive Form (Open Perils) – Similar to HO-3 except personal property is on an open perils basis
- HO-6: Unit Owners Form (Condominium owners) – provides coverage for common use areas and any owned structural part of the building.
- HO-8: Modified Form (Older or Historic Home) – provides coverage for those who live in an older home whose replacement cost is more than its market value.

Personal Property Endorsements – Optional endorsements to cover personal property on a replacement cost basis. Losses will be settled without a deduction for depreciation. Exclusions that are not eligible include:
- Antiques, fine art, and other similar property
- Memorabilia, souvenirs, and collectors items
- Property not kept in good working condition
- Obsolete articles that are stored or not being used

Current Coverage:
You currently have an HO-3 policy with a $100,000 liability limit that provides replacement value on contents through an endorsement underwritten by Missouri National Insurance (A.M. Best Rating: A). Your home is currently insured for $225,000. You do not know if their policy has inflation endorsement. The deductible is $500. The premium is $700 per year.

Recommendations:
I recommend that you make sure your HO-3 policy have an inflation endorsement. This will allow your coverage to rise with growing costs. I also recommend that you increase your HO-3's liability coverage to $300,000. Once again, this is because in order to meet the minimum required coverage for an umbrella policy, you must increase your liability coverage to at least $300,000. While this is will cover more than your home's market value, it will ensure that there is a extra in case things are more expensive than anticipated. I also recommend that you increase your deductible to $1,000 to decrease premiums. With a multi-policy discount and increased deductibles, applied this policy again will cost virtually the same as your current policy at $700 per year even with the increased coverage.

Additionally, your HO-3 policy will only cover $1,500 of jewelry and does not cover theft damage or loss of this property. Because this is not nearly enough to cover

your $10,000 of jewelry and collectibles, I recommend you purchase a personal property endorsement. This will have no deductible and will fully insure your jewelry and collectibles for only $200 per year bringing your total for this section to $900 per year. Unfortunately, your sports memorabilia is not eligible for this coverage and cannot be included.

Because your boat is smaller, it should be covered under Coverage C. However, this is something you will need to double check. If it is not covered you will need to add this to the personal property endorsement.

Umbrella Insurance:

A personal liability umbrella policy (PLUP) is designed to protect the insured with additional liability coverage on top of an HO policy and a PAP. In order to be eligible for a PLUP, an individual generally must have certain minimum amounts of coverage through an HO policy and a PAP first. The minimum amounts are typically $300,000 on an HO policy and 100/300/100 for a PAP. An umbrella policy will not pay any claims until the underlying policies (HO and PAP) have met their limits.

Exclusions for a PLUP are as follows:

- Any at committed with the intent to cause bodily injury to another
- Liability arising out of any business activities
- Director and officers liability
- Workers' compensation obligations

The standard coverage of a PLUP is $1,000,000, however it is advised that coverage is at least up to an individual’s net worth to ensure that all of their assets are protected.

Current Coverage: None. Three years ago, your insurance agent recommended that you purchase a $500,000 umbrella insurance policy. The premium for the policy is $175 per year.

Recommendations:

I recommend you cancel your current PLUP, since I believe you can get a better rate, and you should have about double the coverage that you currently do. I recommend replacing it by purchasing a PLUP that covers the standard amount of $1,000,000 since this is slightly above your current net worth. This policy will cost around $200 per year. Additionally, you will be required to purchase an individual boat owners policy. This is required in order to qualify for the PLUP coverage. This policy will cost $80 per year and will cover you for $5,800 for the boat and $300,000 of liability coverage, in order to make you eligible for the PLUP.

Non-Retirement Investments & Educational Goals:

Assumptions:

- Your basis in all non-retirement investments is 50%
- All investments that are sold will be taxed at 30% now and 25% in retirement
- Any interest and dividends you receive are to be reinvested
- College will cost $10,000 per semester ($20,000 per year), including room and board (in today's dollars)
- Tuition costs are rising at 5.0% per year
- You are willing to invest in a moderately aggressive portfolio for Becky's education
- You wish for all education costs to be fully funded before Becky begins college
- At this time no assets are being used for college savings
- You would prefer to invest in a tax-advantaged investment to pay for college
- Mia would like to build a small addition to your home costing $20,000 (in today's dollars)
- Mia would like to open a small art gallery costing $80,000 (in today's dollars)
- You are willing to invest in a moderately aggressive portfolio for the home addition and art gallery
- (All calculations for education can be found in Appendix C; All calculations for other investments can be found in Appendix D)

Current Non-Retirement Investment Outlook:

Fund	Market Value	Before Tax Rate of Return	Current Yield	Standard Deviation	Correlation With Equity Market	Beta
Miscellaneous EE Bonds	$25,000.00	3.50%	3.50% (Deferred)	0.00%	0.00	0.00
Haley G&I Fund	$69,000.00	8.00%	3.20%	10.00%	0.90	0.50
Konza Fund	$43,000.00	9.20%	1.75%	13.00%	0.91	0.62
Ruth Fund	$13,000.00	4.80%	4.00%	4.90%	0.85	0.69
Sagebrush Fund	$8,000.00	11.20%	0.50%	21.00%	0.80	0.84

Your current investment allocation has a weighted average return of 7.51%, and weighted average standard deviation of 9.37%, and a weighted average beta of 0.49.

These are all at least close to your desired benchmarks for a moderately conservative portfolio, although the standard deviation is a little too high.

Non-Retirement Investment Recommendations:

1) Sell some non-retirement investments to use for 2 specific purposes

Even though your allocation is not bad considering your risk tolerance and desired rate of return, these investments are non-tax efficient and do not have a previously specified purpose. In general, these non-tax efficient forms of investing should be used for a specific pre-retirement purpose. Instead I recommend that you sell some of these investments for 2 specific things.

1. The first purpose is funding a Missouri MOST 529 Plan

Funding a 529 plan will be very beneficial for saving for Becky's college. As you have stated, you would like to fully fund Becky's college and by selling a certain amount of your non-retirement investments, you can reinvest in a 529 plan that will have tax advantages on the continued earnings. Although there will be tax implications now, the tax savings in the future will be worth it. You should sell $54,000 from your non-retirement assets. After being taxed at 30%, this will be $37,800, which is enough to fully fund your education goal in a Missouri MOST 529 plan by moderately aggressively investing at an assumed average 10% rate of return. Assuming that the withdrawals are used for education purposes only, these withdrawals will be tax-free when Becky is in college.

2. The second is immediately building an adequate emergency fund

You have stated that you would like to build an adequate emergency fund and this is one way to accomplish this goal. The other way you could choose to accomplish this goal is by saving over time through discretionary cash flow. However, I believe that because you are easily able to meet your non-retirement investment goals through recommendation 2 seen below, I believe it is more efficient to sell some of your non-retirement assets and use them to immediately help build an emergency fund and keep more of your discretionary cash flow for other purposes. You currently need to add approximately $32,000 to your emergency fund to be considered adequate. This would cover nearly 6 months' worth of expenses, of non-retirement assets. I believe you should sell $20,000 of non-retirement investments, which will result in $14,000 after taxes. $12,000 should be applied to your emergency fund, while $2000 should be used to offset the additional taxes from reallocation from the Sagebrush to the Rocket, fund shown in the chart below.

2) Remaining balance should be properly allocated to receive the rate of return required to fund both your home addition and your art gallery, discontinue

contributions to non-retirement investments and put them towards retirement assets.

Your remaining balance can be used to fund your home addition and art gallery upon retirement. This way the remaining funds can have a targeted purpose. The remaining funds will be more than adequate based on your desired moderately aggressive rate of return and risk tolerance for these specific goals. These goals will cost $100,000 and is projected to cost $180,611.12 when you reach retirement, after accounting for a 3% inflation rate. You can easily accomplish this by maintaining a moderately conservative rate of return from your remaining non-retirement assets, which should total $84,000. Your new non-retirement investment portfolio should appear as follows:

Fund	Market Value	Before Tax Rate of Return	Current Yield	Standard Deviation	Correlation With Equity Market	Beta
Miscellaneous EE Bonds	$25,000.00	3.50%	3.50% (Deferred)	0.00%	0.00	0.00
Haley G&I Fund	$28,000.00	8.00%	3.20%	10.00%	0.90	0.50
Konza Fund	$17,000.00	9.20%	1.75%	13.00%	0.91	0.62
Ruth Fund	$8,000.00	4.80%	4.00%	4.90%	0.85	0.69
Rocket Fund	$6,000.00	14.00%	0.00%	22.00%	0.75	0.83

Your weighted averages of rate of return will be 7.03%, standard deviation will be 8.00%, and beta will be 0.42. Your non-retirement investment portfolio will actually become slightly more conservative and still accomplish your goals with ease. Periodic rebalancing to maintain a rate of return of 7.03%, will result in a projected total of $326,881.09 by the time you wish to pay for your home addition and art gallery at age 62. After taking estimated retirement taxes of 25% into consideration, this will equate to $245,160.82 after taxes. Since your home addition and art gallery would cost $180,611.12 based on the assumed inflation rate of 3%, you have plenty of room to spare and this more conservative approach can be maintained.

Retirement Investment Analysis:

Assumptions:

- You will need approximately 85% of your current earned before-tax income or approximately $115,000 (in today's dollars), when you retire
- You are willing to reallocate your retirement assets to achieve a moderately conservative rate of return
- You would like to assume a before-tax moderately conservative rate of return through retirement as well
- You would like to assume a 25% federal marginal tax rate in retirement
- Normal retirement age is 67
- You would like to retire by age 62 if possible, but it is more important to not deplete your assets
- You are unwilling to reduce your projected life expectancy of 95 unless absolutely necessary to meet your goal of retirement at 62
- You're income and contribution increases will pace with inflation which is estimated to be 3%
- Primary insurance amount at age 67 in today's dollars is $2,200 for Tyler and $1,300 for Mia

Determining Retirement Need:

Based on your projected desired wage replacement ratio of 85%, which leads to approximately $115,000 of yearly income, your first year's need at retirement will be $207,702.79.

Because I do not know much about the details of your annuity we will assume an average rate of return of 6% following the final 2 years of you guaranteed rate of 5%. This will lead to a value of $393,363.62 at age 62. Based on current rates, this will likely lead to payments of approximately $2,000 per month after annuitizing. This will reduce your need in the first year of retirement by $24,000. These payments will also rise to adjust for inflation. This reduces your first year's retirement need from $207,702.79 to $183,702.79.

Your social security payments will keep pace with inflation. Because of this we have accounted for social security in today's dollars and subtracted it from your current yearly retirement need of $115,000. I have also calculated this for both taking early benefits at age 62 and at your normal retirement age of 67 to compare.

Tyler Social Security Calculation:
(0.90*767)+(0.32*(4,624 – 767))+(0.15*(8,558.32 - 4,624)) =
690.30+1234.24+590.15 = **$2,514.69**

Mia Social Security Calculation:
(0.90*767)+(0.32*(2,708-767)) =
690.30+621.12 = **$1,311.42**

Total monthly Social Security (in today's dollars) = **$3,826.11**
Total yearly Social Security at 67 (in today's dollars) = **$45,913.32**
Total first year Social Security at 67 = **$96,132.29**
PV@62 of benefits at retirement (with life expectancy 95) = $**749,643.43**

If you were to take social security at age 62 you would see a 30% reduction in benefits. Therefor, your yearly benefit in today's dollars would be as follows:
Monthly Social Security at 62 (in today's dollars) = **$2,678.28**
Total yearly Social Security at 62 (in today's dollars) = 45,913.32 * 0.7 = **$32,139.32**
Total first year Social Security benefit at 62 = **$58,047.19**
PV@62 of benefits at retirement (with life expectancy 95) = **$672,745,33**

If you were to delay taking social security to age 70 you should see an increase in benefits of 8% for every year delayed.
Monthly Social Security at 70 (in today's dollars) = **$4,744.38**
Total Yearly Benefit at age 70 (in today's dollars) = **$56,932.52**
Total first year Social Security benefit at 70 = **$130,257.48**
PV@62 of benefits at retirement (with life expectancy 95) = **$789,786.59**

In order to decide at which age it will make more sense to take your social security benefits, I have calculated how each will impact your total retirement need, based on your first years need of $183,702.79, and a moderately conservative rate of return, after accounting for your annuity payments. I used the present value of a growing annuity to calculate your total retirement need for both scenarios. Both scenarios are also based on your desired retirement age of 62.

Total need at retirement if:
Social Security taken at 62 = **$2,206,589.89**
Social Security taken at 67 = **$2,149,253.58**
Social Security taken at 70 = $**2,126,354.36**

As you can see, this does not have a very significant impact on the amount of money that you need at retirement, although it does certainly have some impact. That being said, delaying social security will reduce your total retirement need and could be used as a strategy to reduce your total retirement savings need, if we are unable to achieve your goals. Still, moving forward we will continue to assume that you would like to take social security at age 62.

Your Current Retirement Outlook:

Retirement Acct.	Current Value	Rate of Return	Total Annual Contribution	Yearly Contribution Increase
Tyler's 401(k) (Consumer Fund)	$69,000.00	8.75%	$2,054.00	3%
Tyler's 401(k) (Graham Fund)	$134,000.00	4.10%	$4,108.00	3%
Tyler's traditional IRA in CD's	$52,000.00	3.50%	$0.00	0%
Mia's 401(k)	$15,250.00	14.00%	$4,224.60	3%
Mia's Rollover IRA	$32,500.00	4.80%	$0.00	0%
Mia's Traditional IRA in CD's	$52,000.00	3.50%	$0.00	0%

Your current retirement allocation has the following statistics:
Weighted Rate of Return = **5.32%**
Weighted Standard Deviation = **8.07%**
Weighted Beta = **0.20**

These statistics are far lower than a moderately conservative investment strategy. Currently you are just slightly above the benchmarks for a conservative strategy. However, as time goes on if you were to continue contributing to your retirement accounts in the same way, your portfolio would become increasingly aggressive and be far more aggressive closer to retirement. It makes sense to reallocate to be more aggressive now and achieve a moderately conservative portfolio and be targeted with all contributions in the future to maintain that level of risk and return.

Your need at retirement based on the capital depreciation method and retiring at age 62 is $2,206,589.89. Your current retirement allocation is projected to have $1,977,465.55 at age 62. **This is $229,124.34 short**. By reallocating assets to a little bit more aggressive strategy, that is still within your risk tolerance, this gap should close.

Additionally, you have stated that you would like to ensure that you do not deplete your assets over your lifetime. I definitely believe that this can be accomplished with plenty of room for unforeseen expenses. The previous calculations were based on the capital depreciation method, which would reduce your capital to $0 by your life

expectancy of 95. In order to calculate your need at retirement using the capital preservation method and the inflation-adjusted capital preservation method, additional calculations must be made. These will calculate the additional amount needed at retirement to preserve your assets throughout retirement both in raw dollar amount and adjusting for inflation.

Capital Preservation Additional Need = **$187,910.03**
Inflation-Adjusted Capital Preservation Additional Need = **$498,664.38**

Total Need at Retirement with Capital Preservation Method:
= 2,206,589.89 + 187,910.03
= **$2,394,499.92**

Total Need at Retirement with Inflation-Adjusted Capital Preservation Method:
= 2,206,589.89 + 498,664.38
= **$2,705,254.27**

Total Gap in Current Allocation Using Capital Preservation Method:
= 2,394,499.92 – 1,977,465.55
= **$417,034.37**

Total Gap in Current Allocation Using Inflation-Adjusted Capital Preservation Method:
= 2,705,254.27 – 1,977,465.55
= **$727,788.72**

In order to close these gaps, I will recommend a reallocation of current assets in overly conservative funds, as well as potential options of additional retirement contributions to preserve assets throughout retirement.

Retirement Recommendations:

1) Reallocate current retirement portfolio:

As previously stated your current retirement portfolio does not meet the needs that you will have at retirement. The first adjustment is to make a more aggressively invested portfolio, because your current allocation is well below your tolerance levels. First, I recommend reallocating half of what is in your traditional IRA CDs into the value fund. Second, I recommend reallocating $74,000 from the Graham fund to the Acquisitions fund and the remaining $60,000 to the Eastside fund. Making these changes will help to increase your weighted average return to 7.56% and keep your weighted average standard deviation level at 8.07%, while only increasing your weighted average beta to 0.39. The risk measures are still well

below your tolerance levels with a return close to the maximum in a moderately conservative portfolio.

2) Future contributions and periodic reallocation to maintain these levels of risk and return

Future contributions to your 401(k)'s and other retirement accounts should be allocated with the intent of maintaining your revised risk and return levels. Additionally, throughout this process, your portfolio will need to be adjusted as necessary, so that it continues to reflect your risk tolerance levels and can still work towards successfully meeting your goals.

3) Cease funding of your individual conservative postdam fixed annuity

While your postdam fixed annuity does provide steady income for life in retirement, the guaranteed return is not very significant and is only guaranteed for 2 more years. This money could be better invested in other sources that will offer a higher rate of return. There is no penalty for ceasing your payments other than your annuity will have a little less value when you eventually choose to annuitize.

4) Begin Contributing $6,000 each to Roth IRA's

I recommend that you cease contributing to your non-retirement investment accounts and contribute the $12,000 per year plus an additional $200 (from tax savings on your non-retirement assets) to individual Roth IRAs. As discussed earlier, there are several advantages to contributing to Roth IRAs as opposed to traditional IRAs. Typically, a good guideline for whether or not contributing to a Roth IRA is more beneficial than a traditional IRA, is if you expect your tax bracket to be higher in retirement than it currently is. However, because you are far enough out of retirement and your Roth IRA will have time to grow tax free, it makes more sense to use a Roth IRA at the moment. Your tax-free growth will more than compensate for the taxes paid immediately. Additionally, because a Roth IRA has no required minimum distribution rules, it will give you more flexibility in retirement distributions. These contributions will be allocated to maintain the balance of your current portfolio.

Implications:

These recommendations will have no impact on your current tax situation. Your current contribution amounts to your 401(k)'s will continue and any money you otherwise would have been investing in non-retirement accounts that is taxed as ordinary income will now go into a Roth IRA which is also taxed as ordinary income. These recommendations are projected to result in your retirement investments growing to $2,613,961.13 at retirement. This is still $91,293.14 short of the ultimate goal of taking Social Security at age 62 while maintaining your full capital while adjusting for inflation. However, you can begin taking Social Security at age 62 if you

wish to and rest assured that your retirement funds will not deplete during your life. Additionally, once your emergency fund is met, we will recommend increasing contributions to your 401k's even more, in order to close that gap. If you can begin increasing contributions as early as next year, which we are very confident that can be done, we can set goals to attempt to maintain your assets' inflation adjusted value throughout retirement.

Estate Planning Analysis:

Assumptions:

- The assumed appreciation rate on your gross estate, debt, loans, and other financial position items is 4.0%
- Funeral and administrative expenses are assumed to be $9,000 for each person and these expenses will grow 4.0% annually. Executor fees are expected to be $13,500 each
- You would like to make sure you do not pay unnecessary estate taxes
- You would like to avoid probate and maintain privacy, as well as make Becky's life as uncomplicated as possible in the event of one or both of your passing

Current Situation:

Currently, you have wills that were created 3 years ago, when Becky was 2. This will was not necessarily done with proper thought and detail as it was done from a will kit from an office supply store. In your wills, you name Mia's sister Barbara, who is single and lives in Oregon, as Becky's guardian in the event that both of you should pass. You also leave all of your assets to each other in the event of either of your passing, with no other beneficiaries named.

Recommendations:

1) Find an Estate Planning Attorney

Because we are not qualified Estate Planning Attorneys, you will need to be connected with one in order to act on the rest of our recommendations. We would be more than happy to refer you to a trusted Estate Planning Attorney that we have worked with in the past, or you may also seek one out on your own. But the most important thing is that you find an Estate Planning Attorney to carry out the rest of these recommendations.

2) Update your wills

While you do have wills, these are not sufficient to accomplish everything that you want to in the event of one or both of your passing. In particular, you would be leaving Becky in a complicated situation in the event both of you should pass. First of all, Becky's guardians (along with alternate guardians) should be listed, so that you know she will be cared for by people with whom you trust. At the moment, you have Mia's sister Barbara listed. You should list an alternate guardian in case

something were to also happen to Barbara. You should also list an executor and a successor executor who will carry out the wishes of your will.

3) Prepare a Living Will and Assign a Power of Attorney

A living will provides instructions for care, medical treatment, or other services that you may consent to in the case that you become incapacitated. These instructions will ensure that your wishes are carried out despite being incapable of communicating them at that time. Also, assigning a Power of Attorney gives the individual you choose, the authority to make both medical and financial decisions for you while you are incapacitated. Having a Living Will and a Power of Attorney in place will avoid tough medical and financial decisions being forced onto your family, and ensures that you are treated the way you wish during incapacitation.

4) Create a Joint Living Trust OR a custodial account such as a UTMA

We recommend creating a joint living trust for the benefit of Becky and making it the contingent beneficiary for all of your investment accounts, as well as your life insurance policies and any other assets you wish to avoid probate. In order to include tangible, personal property, you should include an Assignment of Untitled Tangible Personal Property. This will allow you to include things such as jewelry and other personal items in the trust, and thereby avoiding probate.

OR

We recommend creating a Uniform Transfers to Minors Account (UTMA), which would allow you to transfer your assets to the account upon your passing. All of the assets will be irrevocable and taxable to at Becky's individual tax rate. A UTMA would be managed by a custodian, who can manage the assets as they feel is appropriate, until Becky reaches the age of majority. Once Becky reaches 18, she would be given full access to the assets.

5) Update Beneficiaries

As previously stated, you should make the joint living trust FBO Becky, or the UTMA, the contingent beneficiary of your assets. Additionally, as far as we are aware, no beneficiaries have been named for your retirement accounts. While your non-retirement accounts are jointly held, your retirement accounts are held individually, and we recommend naming each other as the primary beneficiary, and the joint living trust FBO Becky or UTMA, as the contingent beneficiary.

6) Write a Letter of Last Instruction

Although a letter of last instruction is not legally binding, it is a vital part of a complete estate plan. This letter provides your family with any and all information

they will need to locate personal items, passwords, and your personal wishes in settling your affairs. This letter can save an already grieving family from more emotional conflict.

Again, these are recommendations and as described in item number 1, we are not Estate Planning Attorneys, and do not have the authority to help act upon these recommendations. An Estate Planning Attorney will be able to help you put these into action, as well as ensure that your estate plan is the most appropriate based on your wishes.

7) Do not worry about Estate Taxes

Missouri does not have an estate tax (Missouri Department of Revenue, 2020), and the Federal Estate Tax for 2019 has an exemption of $11.40 million. For now, there is no reason to be concerned. However, if you come into a large sum of wealth unexpectedly, or if the estate tax laws should change for either Missouri or Federally, we should revisit this issue.

Summary of Recommendations:

Cash Flow Recommendations:

- Refinance Mortgage and include Credit Card debt to eliminate it
- Use remaining cash flow throughout the year once the plan recommendations have been implemented to fund your emergency fund which should be roughly $14,000
- (2020 Projected Income & Expense Statement is in Appendix A)

Tax Recommendations:

- Decrease your federal tax withholding to more closely resemble your tax liability
- Use full tax refund to immediately improve emergency fund

Personal Insurance Recommendations:

- Purchase individual term life insurance policies for $912,030.30 for Tyler, and $541,014.46 for Mia
- Purchase supplemental long-term disability insurance for each of you
- Take advantage of your FSA by putting forward for likely medical expenses plus $500 more if any carryover or 2.5 month grace period
- Revisit long-term care insurance at age 50

Property and Casualty Insurance Recommendations:

- Increase auto insurance coverage to minimum requirements for umbrella insurance
- Use discounts to reduce cost of HO and Auto Insurance
- Increase HO-3 liability coverage to $300,000 to meet minimum umbrella requirement
- Purchase personal property endorsement
- Purchase new PLUP that covers $1,000,000

Non-Retirement and Education Recommendations:

- Sell $74,000 of non-retirement investments to use for Becky's 529 plan and increase your emergency fund
- Reallocate as shown in the chart in the full section

Retirement Investments Recommendations:

- Reallocate current retirement portfolio to better match your risk profile
- Make future contributions accordingly to continue on the same risk-return level
- Cease Funding to postdam fixed annuity, and (at least temporarily) cease funding to non-retirement investments
- Begin contributing $6,000 each to individual Roth IRAs

- Continue to contribute the same amount to your 401k's

Estate Planning Recommendations:

- Find an estate planning attorney
- Update your wills
- Prepare a living will and assign POA
- Create Joint Living Trust or UTMA
- Update beneficiaries
- Write letter of last instruction

Appendix A:

Expected Income and Expense Statement			
Tyler and Mia Bedo			
Year Ended December 31, 2020			
Income		**Expenses Cont.**	
Tyler Salary	$68,466.58	Other Committed Expenses	
Mia Salary	$32,496.00	Medical Copay	$240.00
Tyler Bonuses	$34,233.30	Prescriptions	$240.00
Section 79 Income	$118.14	Dental and Eye Care	$600.00
Other Unearned Income	$2,613.50	Life Insurance Premiums	$3,444.00
Total Income:	**$137,927.52**	Medical Insurance Premiums	$3,600.00
		Umbrella Insurance Premiums	$200.00
Expenses		Disability Insurance Premiums	$1,500.00
Dedicated Expenses		Other Insurance Premiums	$380.00
Taxes		Telephone	$1,500.00
Tyler & Mia Total Taxes	$29,195.08	Bank Charges	$120.00
Savings and Investments		Personal Care	$1,200.00
Tyler Retirement Investments	$10,108.00	**Discretionary Expenses**	
Mia Retirement Investments	$9,249.60	Entertainment	$2,700.00
Non-Retirement Savings & Inv	$0.00	TV	$600.00
Reinvested Unearned Income	$2,613.50	Dining Out	$3,300.00
Housing		Recreation	$2,700.00
Real Estate Taxes	$1,675.00	Travel	$3,000.00
Homeowners Insurance	$900.00	Savings for Art/Gallery	$0.00
Utilities	$4,200.00	Gifts to Charities	$5,800.00
Other	$400.00	Holiday Giving	$1,800.00
Food/Clothing/Transport		Home Improvements	$1,800.00
Food/Groceries	$5,100.00	Dues	$1,800.00
Clothing	$2,800.00	Subscriptions	$960.00
Auto Maintenance	$1,500.00	Housekeeping Services	$960.00
Auto Insurance Premiums	$2,000.00	Pet Care	$420.00
Plates/Tags	$450.00	Tax Prep Fees	$400.00
Loans			
Mortgage	$8,737.68	**Total Expenses:**	**$123,604.86**
Auto	$5,412.00		
Credit Card/Charge Account	$0.00	**Total Surplus:**	**$14,322.66**

Appendix B:

All Life Insurance Calculations:

Yearly Price Per Thousand for Tyler:

(P+CVP)(1+i)-(CV+D) divided by (DB-CV)(0.001) = YPT

(1,104+7,850)(1.055) - (8,750+250) / (100,000 – 8,750)(0.001) =
(8954)(1.055) – (9,000) / (91,250)(0.001) =
9446.47 – 9000 / 91.25 =
446.47 / 91.25 = **4.89**

Yearly Price Per Thousand For Mia:

(960+7500)(1.055)-(8,350+250) / (100,000-8,350)(0.001) =
(8,460)(1.055)-(8,600) / (91,650)(0.001) =
(8,925.30-8,600) / 91.65 =
325.30 / 91.65 = **3.54**

Needs Analysis Calculations:

Annual Before-tax needs for either survivor: $115,000

Final Expenses:

Final Expenses	Costs
Final Debts	$20,000.00
Final Illness	$1,500.00
Funeral	$9,000.00
Estate Administration	$13,500.00
Other Short Term Needs	$10,000.00
Spousal Adjustment Period	$25,000.00
Total	**$79,000.00**

They would also like to pay off mortgage:

Other Final Expenses	Costs
Mortgage	$130,331.61

Retirement Assets Available:
(all retirement assets are assumed to receive the same before-tax rate of return as other assets, therefor life insurance need should be reduced by total need regardless of)

Retirment Assets Available	
At Tyler's Death	**Amount**
Tyler's 401(k)	$203,000.00
Tyler's IRA	$52,000.00
Nonretirement Investments	$100,000.00
Total	**$355,000.00**

Retirment Assets Available	
At Mia's Death	**Amount**
Mia's 401(k)	$15,250.00
Mia's IRA	$52,000.00
Annuity	$125,000.00
Rollover IRA	$32,500.00
Nonretirement Investments	$100,000.00
Total	**$324,750.00**

Inflation Adjusted After-Tax Rate of Return on Post Death All Investments = 2.4%
Moderately Conservative Before-Tax Returns= 7.75%
Inflation = 3%
7.75% - 3% = **4.75%**

Given periods of time to calculate needs for:
First Period (42-55; Until Becky is 18):
Second Period (55-60; Social Security Dead Period; Until Retirement)
Third Period (60-67; Reduced Social Security Resumes; Salary Stopped)
Fourth Period (67-95; Full Social Security for rest of life expectancy)
Fifth Period (Education; Tyler/Mia age 42-55; Becky age 5-18)

In the event of *Tyler's* Death:

First, find the present value of yearly income need for the beginning each time period (Total Need Less Income and Social Security Income):

Mia's Age	Income Need
42-55	$47,344.00
55-60	$82,504.00
60-67	$98,235.00
67-95	$91,552.00
Education Fund	$20,000.00

Then adjust for inflation to the future value need of yearly income for the first year of each time period:

Mia's Age	Income Need
42-55	$47,344.00
55-60	$121,159.91
60-67	$167,238.51
67-95	$191,689.56
Education Fund	$37,712.98

Then plug each into the PVGA formula to find the real dollar amount needed at the beginning of each period:

Age 42-55 =
47,344/0.0475 = 996,715.789
(1.03^13)/(1.0775^13) = (1 - 0.5565) * 996,715.789 = 442,043.452

Age 55-60 =
121,159.91/0.0475 = 2,550,734.95
(1.03^5)/(1.0775^5) = (1 - 0.7982) * 2,550,734.95 = 690,228.887

Age 60-67 =
167,238.51/0.0475 = 3,520,810.74
(1.03^7)/(1.0775^7) = (1 - 0.7294) * 3,520,810.74 = 952,731.386

Age 67-95 =
191,689.56/0.0475 = 4,035,569.68
(1.03^28)/1.0775^28) = (1 - 0.2830) * 4,035,569.68 = 2,893,503.46

Education Fund =
37,712.98/0.05 = 1,371,381.09
1 - (1.05^4)/(1.10^4) = (1 - .9018) * 1,371,381.09 = 134,669.623

Then calculate the current amount needed of each of the PVGA values using 7.75% and add them up to find the total need at death:

Age 42-55:
442,043.452 Already in PV

Age 55-59	Amount
FV	690228.89
I	7.75
N	13.00
PMT	0.00
PV	**261,558.30**

Age 60-67	Amount
FV	952731.39
I	7.75
N	18.00
PMT	0.00
PV	**248,576.15**

Age 68-95	Amount
FV	2893503.46
I	7.75
N	25.00
PMT	0.00
PV	**447,705.09**

Education	Amount
FV	134669.62
I	7.75
N	13.00
PMT	0.00
PV	**51,032.28**

Total	**1,450,915.27**

Then add the total immediate expenses:

1,450,915.27 + 79,000(final expenses) + 130,331.61(mortgage) = **$1,660,246.88**

Then subtract the total immediately available assets to arrive at total insurance need:

1,660,246.88 – 255,000 – 224,750 – 100,000 = $**1,080,496.88**

In the event of *Mia's* death:

Yearly Income Need at the First Year of Each Time Period in today's dollars:

Tyler's Age	Income Need
42-55	$27,429.20
55-60	$46,533.20
60-67	$115,000.00
67-95	$88,600.00
Education Fund	$20,000.00

Yearly Income Need at First Year of Each Time period in Future Value:

Tyler's Age	Income Need
42-55	$27,429.20
55-60	$68,335.57
60-67	$195,779.80
67-95	$185,508.73
Education Fund	$37,712.98

Plug Into the PVGA Formula to Get the Future Dollar Need at the Beginning of Each Period:

Age 42-55:
27,429.20/0.0475 = 577,456.842
(1.03^13)/(1.0775^13) = (1 - 0.5565) * 577,456.842 = **256,102.11**

Age 55-60:
68,335.57/0.0475 = 1,438,643.579
(1.03^5)/(1.0775^5) = (1 - 0.7982) * 1,438,643.579 = **290,318.274**

Age 60-67:
195,779.80/0.0475 = 4,121,680.00
(1.03^7)/(1.0775^7) = (1 - 0.7294) * 4,121,680.00 = **1,115,326.608**

Age 67-95:
185,508.73/0.0475 = 3,905,446.947
(1.03^28)/1.0775^28) = (1 - 0.2830) * 3,905,446.947 = **2,800,205.461**

Now Calculate the Current Amount Needed Right Now for Each Time Period Assuming a moderately conservative before-tax rate of return of 7.75%

Age 42-55:
256,102.11 is already the correct amount

Age 55-59	Amount
FV	290318.27
I	7.75
N	13.00
PMT	0.00
PV	**110,014.45**

Age 60-67	Amount
FV	1115326.61
I	7.75
N	18.00
PMT	0.00
PV	**290,998.70**

Age 68-95	Amount
FV	2800205.46
I	7.75
N	25.00
PMT	0.00
PV	**433,269.31**

Education	Amount
FV	134669.62
I	7.75
N	13.00
PMT	0.00
PV	**51,032.28**

Total	**1,141,416.85**

Now Add Those and Immediate Final Expenses to Get the Total Need at the Death of Mia:

1,141,416.85 + 79,000 + 130,331.61 = **1,350,748.46**

Lastly, Subtract Total Available Assets at Mia's death to get the Life Insurance Need:

1,350,748.46 - 224,750 **–** 255,000 - 100,000 = **$770,998.46**

Appendix C:

Education Cost Calculations:

Current annual need in today's dollars: $20,000

Future Value Calculation:

Education Costs	
PV	20,000
I	5.00
N	13.00
PMT	0.00
FV	**37,712.98**

Use PVGA formula to find real dollar need at the beginning of Becky's college:

Education PVGA =
37,712.98/0.05 = 754,259.66
1 - (1.05^4)/(1.10^4) = (1 - .8302) * 754,259.66 = 128,073.29

Education Costs	
FV	128,073.29
I	10.00
N	13.00
PMT	0.00
PV	**37,098.27**

The Present Value to FULLY fund Becky's education is $37,098.27.

Appendix D:

Calculations for retirement need at early, normal, and delayed social security benefits:

Total need at retirement if social security taken at age 62:

183,702.79 – 58,047.19 = 125,655.60

$$PVGA = \frac{125{,}655.60}{0.0775 - 0.03} * \left(1 - \frac{1.03^{33}}{1.0775^{33}}\right)(1+0.0775)$$

PVGA = 2,645,381.05 * 0.77413 * 1.0775
PVGA = **2,206,589.89**

Total need at retirement if social security taken at age 67:

$$PVGA = \frac{183{,}702.79}{0.0775 - 0.03} * \left(1 - \frac{1.03^{5}}{1.0775^{5}}\right)(1+0.0775)$$

PVGA = 3,867,427.16 * 0.2018 * 1.0775
PVGA = **840,947.73**

$$PVGA = \frac{116{,}829.59}{0.0775 - 0.03} * \left(1 - \frac{1.03^{28}}{1.0775^{28}}\right)(1+0.0775)$$

PVGA = 2,459,570.32 * 0.7170 * 1.0775
PVGA = 1,900,184.09

FV = 1,900,184.09
PMT = 0
I = 7.75
N = 5
FV = **1,308,305.85**

Total need with benefits taken at 67 = 1,308,305.85 + 840,947.73
= **2,149,253.58**

Total need at retirement if social security taken at age 70:

$$PVGA = \frac{183{,}702.79}{0.0775 - 0.03} * \left(1 - \frac{1.03^{8}}{1.0775^{8}}\right)(1+0.0775)$$

PVGA = 3,867,427.16 * 0.3028 * 1.0775

PVGA = **1,261,682.39**

$$PVGA = \frac{102,451.72}{0.0775 - 0.03} * \left(1 - \frac{1.03^{25}}{1.0775^{25}}\right)(1+0.0775)$$

PVGA = 2,156.878.28 * 0.6760 * 1.0775
PVGA = **1,571,048.57**

FV = 1,571,048.57
PMT = 0
I = 7.75
N = 8
PV = **864,671.97**

Total need with benefits taken at 67 = 1,261,682.39 + 864,671.97
= **2,126,354.36**

Calculation of early normal and delayed benefits' PVs at age 62:

Early Age 62:
FV = 0
PMT = 2,678.28
I = 3/12 = 0.25
N = 33*12 = 396
PV = **$672,745,33**

Normal Age 67:
FV = 0
PMT = 3,826.11
I = 3/12 = 0.25
N = 28*12 = 336
PV@67 = **$869,042.27**

FV = 869,042.27
PMT = 0
I = 3
N = 5
PV@62 = $**749,643.43**

Delayed Age 70:
FV = 0
PMT = 4,744.38
I = 3/12 = 0.25
N = 25*12 = 300
PV@70 = **$1,000,478.03**

FV = 1,000,478.03
PMT = 0
I = 3
N = 8
PV@62 = **$789,786.59**

Calculations for current retirement outlook using Future Value of Growing Annuity (FVGA):

FVGA = [PMT/(*i* - *g*)] * [(1 + i)^n + (1 + g)^n]

Tyler's 401(k):

Consumer Fund:
FVGA = 2,054/(0.0875 – 0.03) * (1.0875^20 - 1.03^20)
FVGA = 35,721.74 * 5.3529
FVGA = 191,213.22

PV = 69,000
I = 8.75
N = 20
PMT = 0
FV = 369,346.85

Total = 191,213.22 + 369,346.85 = **560,460.07**

Graham Fund:
FVGA = 4,108/(0.041 – 0.03) * (1.041^20 - 1.03^20)
FVGA = 373,454.55 * 0.4275
FVGA = 159,704.18

PV = 134,000
I = 4.1
N = 20
PMT = 0
FV = 299,308.73

Total = 159,704.18 + 299,308.73 = **459,012.91**

Total for Tyler's 401(k) = **$1,019,472.98**

Mia's 401(k):
FVGA = 4,224.60/(0.14 – 0.03) * (1.14^20 - 1.03^20)
FVGA = 38,405.45 * 11.93738

FVGA = 458,460.40

PV = 15,250
I = 14
N = 20
PMT = 0
FV = 209,588.22

Total for Mia's 401(k) = 458,460.40 + 209,588.22 = **$668,048.62**

Tyler's CDs:
PV = 52,000
I = 3.5
N = 20
PMT = 0
FV = **$103,469.02**

Mia's CDs:
PV = 52,000
I = 3.5
N = 20
PMT = 0
FV = **$103,469.02**

Mia's Rollover IRA:
PV = 32,500
I = 4.8
N = 20
PMT = 0
FV = **$83,005.91**

Total expected at retirement with current allocation:
= 1,019,472.98 + 668,048.62 + 103,469.02 + 103,469.02 + 83,005.91
= **$1,977,465.55**

FVGA with 401k recommendations
= 10,386.60/(0.0756 – 0.03) * (1.0756^20 – 1.03^20)
= 227,776.316 * 2.4894
= **567,026.36**

Recommendation retirement investment growth with $12,000 annual contributions
PV = 354,750
N = 20
I = 7.56
PMT = 12,000

FV = 2,046,934.77

Total at retirement with current recommendations = $2,613,961.13

Retirement Acct.	Current Value	Rate of Return	Total Annual Contribution	Annual Contribution Increases
Tyler's 401(k) (Consumer Fund)	$69,000.00	8.75%	$2,054.00	3%
Tyler's 401(k) (Graham Fund)	$134,000.00	4.10%	$4,108.00	3%
Tyler's traditional IRA in CD's	$52,000.00	3.50%	$0.00	0%
Mia's 401(k)	$15,250.00	14.00%	$4,224.60	3%
Mia's Rollover IRA	$32,500.00	4.80%	$0.00	0%
Mia's Traditional IRA in CD's	$52,000.00	3.50%	$0.00	0%

Capital Preservation Method:
= 2,206,589.59/(1.0775^33)
= 2,206,589.59/11.7428
= **187,910.03**

Inflation-Adjusted Capital Preservation Calculations:

Serial Rate = 1.0775/1.03 – 1
= .0461
= 4.61%

= 2,206,589.89/(1.0461^33)
= 2,206,589.89/4.4250
= **498,664.38**

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