Fall 2020

Bedo Case Study

Bailey Warrick

Hill Financial Planning

Comprehensive Financial Plan

Prepared for Tyler & Mia Bedo

January 1, 2020

Prepared by Bailey Warrick

Hill Financial Planning

12515 Duff Ave.

Springfield, MO

*Fictious names being used throughout this document

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Letter to Client

January 1, 2020

Dear Tyler and Mia Bedo,

We were delighted that you reached out to our firm to let us help you fulfill your goals. This letter outlines my firm's professional relationship with you and our commitment to help you meet your goals.

Our firm takes pride in having open and honest communication with our clients and we hope that you will feel comfortable reciprocating that. We know that this level of trust will build over time, but we want you to always feel welcome to ask questions. We approach financial planning as being a collaborative process. This means that we will work together at all times to make sure your financial plan will be the most beneficial for you. We also encourage you to ask questions and input your own thoughts and ideas at all stages of our planning process.

Our firm takes our ethics and privacy standards seriously and we will uphold those standards at all times. We will not share any of your information unless you authorize us to share it. We want you to feel safe sharing any personal and financial information without worry that it will be shared outside of our interactions. We will always act and make recommendations with your best interest in mind. We will disclose any conflicts of interest or potential conflicts of interest. If conflicts of interest arise, we will discuss how we will deal with or work with those conflicts going forward.

You requested specific financial planning objectives that you would like to work on together and those include (1) Building a six month emergency fund, (2) saving for Becky's education, (3) looking at your current tax situation, and (4) working towards specific retirement goals.

Best Regards,

Bailey Warrick

Client Engagement Letter

January 1, 2020

Bailey Warrick

Hill Financial Planning

12515 Duff Ave.

Springfield, MO

Tyler and Mia Bedo

727 Success Lane

Springfield, MO

Dear Mr. and Mrs. Bedo,

This letter outlines the specific terms of our financial planning agreement. This agreement is between Bailey Warrick and Tyler and Mia Bedo. Any changes to this agreement should be documented through writing and agreed upon by both parties.

All information provided throughout this engagement will be kept confidential. If information needs to be shared with a third-party to develop recommendations, then your written consent will be obtained first.

We discussed the scope of our engagement in our initial meeting. We will develop a comprehensive financial plan. The services needed for that plan will include:

- Analyze current financial situation with a net worth statement, cash flow summary, and investment analysis
- Identify and prioritize financial goals

- Develop asset management plan
- Retirement planning analysis including specific retirement goals
- Review current and projected tax planning
- Develop an education savings plan
- Present a written financial plan which will outline specific recommendations to meet your financial goals. This plan will thoroughly be reviewed with you.
- Develop a plan for implementation for mutually agreed upon recommendations.
- Help with implementation as needed or required
- Evaluate financial plan at agreed upon intervals to make changes as needed and ensure the financial plan still fits current goals.

We will maintain a professional relationship and meet at least once per year. We can meet more often as needed or requested but at a minimum we will meet once a year. We will update financial records and ensure the financial plan is still appropriate for your current needs and goals. Either party can choose to terminate this relationship at any time for any reason. The other party must be notified in writing and any fees prior to the termination will be payable in full.

My services are provided on a fee-only basis at $250 per month. This $250 covers all aspects of developing the financial plan for you and everything outlined in this letter. My firm and I receive no compensation from any investment you choose, or any third-party referrals that we may provide.

It is vital that you provide thorough and accurate information to ensure the financial plan is complete and appropriate for your needs. Any and all relevant information should be disclosed as soon as possible. We will update the financial plan and recommendations based on any information that will impact the plan.

My firm and I will uphold and adhere to our ethics and privacy statement at all times. We will also follow any federal or state laws and regulations. We have no known conflicts of interest at this time, if any conflicts of interest arise then we will notify you in writing immediately. We will also assess the impact of those conflicts of interest to our professional relationship. My firm and I will keep your best interests in mind at all times and will only make recommendations based on your best interests.

Sincerely,

Bailey Warrick

Bailey Warrick:

I accept the terms of this engagement letter

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Tyler and Mia Bedo:

We accept the terms of this engagement letter

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Firm Mission Statement

Hill Financial Planning strives to help clients achieve their financial goals through comprehensive financial planning. We involve clients in their own financial planning to help educate them on their financial affairs which will lead to financial independence.

Firm Vision Statement

Hill Financial Planning upholds all of our staff to the fiduciary standards. We offer all of our services on a fee-only basis so that we always have our client's best interest in mind. We see our clients as people rather than numbers. This helps us develop financial plans that will truly suit their life goals.

Hill Financial Planning offers low to no cost services for eligible clients. We believe in helping everyone in our community achieve financial independence. We want everyone to feel happy and confident with their financial life. We educate our community so that everyone has the chance to grow and feel confident in their financial decisions.

Hill Financial Planning

Ethics Statement

Hill Financial Planning adheres to the CFP Board's Code of Ethics and Standards of Professional Responsibility. Many of our staff do hold the CFP designation but we expect our entire staff to uphold the guidelines the CFP Board has put in place. All of our advice and interactions with clients will be done with staff upholding fiduciary duty, integrity, diligence, confidentiality, and professionalism:

- **Fiduciary Duty:** This means we will only make recommendations and offer advice based on what is in the best interest of our clients. We will keep the client's best interests in mind through every step of the financial planning process.
- **Integrity:** Trust is one of the most important aspects of a successful financial planning relationship and therefore a successful financial plan. Clients can rely on our staff being honest and professional at all times.
- **Diligence:** Our staff will be timely and thorough in all interactions with the client. We will learn about the client's goals and develop a relationship with them. This will ensure that our financial plan and recommendations are fitting for each client. We understand that each client is different and that their lives evolve over time. This is why we will always build a relationship with each client and continue that relationship over time to keep the financial plan up to date and fulfill client goals.
- **Confidentiality:** Staff upholds confidentiality at all times and are required to follow the firm's privacy policy.
- **Professionalism:** The staff will always act in a professional manner and they will only offer advice or services for what they are qualified to do so. If the staff is not qualified for certain advice or services, then they will make a referral. The staff will follow all state and federal laws and regulations.

Hill Financial Planning Privacy Policy

Due to the nature of our work we do need personal and financial information. We understand how important these are to you and want you to know that your privacy is very important to us.

Information we may ask for:

- Name, Social Security number, address, email, and phone number.
- Information on current investments or savings.
- Financial Information such as account balances, bank account information, income, liabilities, net worth, and assets.
- Other information necessary for the financial plan and recommendations.

This list is not all inclusive as these are just some examples of what kind of information, we may request from you.

What we do with the information you provide:

- We never provide your information to vendors or solicitors.
- We will not share nonpublic personal information with third parties who are not affiliated with Hill Financial Planning except in the cases below.
- With client permission we may share nonpublic personal information as needed in the case of:
    - Completing transactions or changes to accounts with client permission.
    - Servicing the client account through other professionals like an attorney, accountant, insurance agent or others who support the implementation and development of the financial plan.
    - A requirement from a legal or regulatory agency with jurisdiction over Hill Financial Planning

We keep your information confidential and will only share it as noted above or if you give us permission to do so beforehand. We maintain security through our electronic filing by using passwords to access any of our online records. We store information as long as you are a client and afterwards it will be destroyed after the requirement set forth by the federal and state securities laws. You will receive notice of our privacy policy annually.

Summary of Goals

Cash Flow Goals:

- Achieve high financial satisfaction.
- Build a six-month emergency fund.

Education Goals:

- Fund 100 percent of Becky's college.
- Choose a tax-advantaged investment for education funds.

Retirement Goals:

- Both of you want to retire at age 62.
- Tyler would like to volunteer during retirement teaching young golfers.
- Mia would like to build a small addition to their home.
- Mia would like to open a small business in retirement.
- Both of you would like to occasionally take trips.
- Start receiving Social Security benefits as early as possible.
- Minimize depletion of assets.
- Be self-sufficient in retirement.

Estate Goals

- Leave as large of an estate as possible for Becky.
- Avoid probate to maintain privacy for Becky.
- Provide for Becky financially after death.

Long-Term Care

- Establish a plan for the possibility of funding long-term care for one or the other.

Summary of Planning Assumptions

The following assumptions were used when creating this financial plan:

- 3% salary increase each year for both Mia and Tyler's income.
- Tyler and Mia both have moderate to low risk tolerance.
- The small addition to the home would cost $20,000 in today's dollars.
- The gallery Mia wants to open would cost $80,000 in today's dollars.
- Tyler and Mia will need of 85% of their current income in today's dollars for retirement.
- Inflation will be 3% per year.
- Prime interest rate is 3.25% but is expected to increase.
- Life expectancy for both Tyler and Mia is 95.
- 30% combined federal and state tax bracket until retirement and then 25% combined during retirement.
- Their home will appreciate 4% annually.
- Nursing home expenses in their area are $49,000. But long-term care expenses increase at 5% per year. They will need $115,000 per year and it will grow at 5.5% after tax.
- Education is $10,000 per semester in today's dollars. Costs are increasing at 5% per year.
- Normal retirement age for Tyler and Mia is age 67.
- Tyler and Mia will increase retirement contributions at 3% each year.
- Primary insurance at 67 is $2,200 for Tyler and $1,300 for Mia in today's dollars.
- Appreciation on their estate, debt, loans, and other financial position is 4%.
- Administration expenses for each person is $9,000 and it will grow 4% annually. Executor fees are estimated at $13,500 each.

Executive Summary

This comprehensive financial plan offers recommendations and steps to implement those recommendations to help you achieve your financial goals. This plan covers the topics of education planning, cash flow goals, long-term care goals, estate planning, and retirement planning. These were all areas that we identified goals in. A comprehensive analysis of your current finances, taxes, and insurance policies was conducted.

The following actions were recommended, steps on implementation can be found in each recommendation's designated section:

- Move the $5,000 in the second checking account to the money market account within 30 days. This $5,000 will then start accruing interest to meet the 6-month emergency fund goal.
- Have the tax calculations in this plan verified with a CPA, then adjust withholdings with your employer's Human Resources representative as soon as possible.
- Purchase new private life insurance policies for both Tyler and Mia within the next three months to replace your current private life insurance.
- Establish a flexible spending account and start contributing to it within 30 days up to $1,080. This will pay prescriptions, copays, dental, and eye expenses with pretax dollars.
- Revisit the idea of purchasing long term care insurance when you reach the age of 50.
- Get quotes from your current insurance companies within 30 days to see how much you can save by bundling your home and auto insurance policies. The average discount is 10% which would save you $270 annually on insurance.
- Purchase boat insurance within 45 days for $100 annually.
- Establish a 529 plan within three months and change current monthly savings allocations. This will allow you to contribute $550 to the 529 plan each month.
- Use your $12,000 tax refund to maximize your Roth IRA contributions for the year.
- Have an attorney draft a will and letter of last instruction in the next 30 days. This will likely cost $2,000 which can be paid for with current savings.

Client Acceptance Letter

Mr. Tyler and Mrs. Mia Bedo

727 Success Lane

Springfield, MO

Dear Tyler and Mia,

This letter is in regard to the financial plan that has been developed for you.

We have worked together through this financial planning process. We started by gathering information and talking about your financial goals and ideals. We analyzed your current financial situation and have developed recommendations based on the goals and ideals you expressed.

This plan contains those financial recommendations and steps to implementing those recommendations.

This plan can be changed based on your thoughts and input. As your lives change and progress, we will update the plan to continue to fit your needs and goals.

If you are satisfied with this plan, then please sign below. You can call our firm for help with implementation or with any questions and we will regularly meet to monitor and adjust these implementations as needed.

Plan Accepted by: ______________________________________ Date: ______________

Plan Accepted by: ______________________________________ Date: ______________

Cash Flow and Net Worth

Net Worth

A net worth statement allows us to look at what assets you have compared to your liabilities. Typically, when we're younger and just starting out in life our liabilities will be higher than our assets. This means that we have a lot of debt and not a lot of savings or assets compared to that. As we pay down debt and compile savings our assets start to be higher than our debt. The goal is that as you get older your assets will increase and your liabilities will decrease. The net worth will tell you how much you have in assets after subtracting liabilities. This number can be negative if liabilities are higher.

You have a good net worth. Your assets are higher than your liabilities by $903,922. This is a great place to be at and we will monitor your net worth and hope to see it continue to increase. Ideally this number will increase each year for you because you will be paying down those liabilities and accumulating more in savings.

Assets	**Current Value**
Home	$250,000
Furnishings	$45,000
Ford Taurus	$20,000
Nissan Quest	$15,500
Yard Equipment	$8,000
Jewelry and Collectibles	$10,000
Signed Golf Club	$5,000
Sporting Equipment	$2,500
Golf Artwork	$5,000
Boat	$5,800
Total Real Assets:	**$366,800**
Savings Account	$10,000
Checking Account	$3,500
Money Market Account	$10,000

Checking Account: Art Gallery Savings	$5,000
Total Monetary Assets:	**$28,500**
Misc EE Bonds	$25,000
Haley G&I Fund	$69,000
Konza Fund	$43,000
Ruth Fund	$13,000
Sagebrush Fund	$8,000
Life Insurance Cash Value	$17,100
Total Nonretirement Investment Assets:	**$175,100**
Tyler 401(k) Consumer Fund	$69,000
Tyler 401(k) Graham Fund	$134,000
Tyler IRA	$52,000
Mia 401(k) Rocket Fund	$15,250
Mia Rollover IRA	$32,500
Mia Traditional IRA	$52,000
Conservative Annuity	$125,000
Total Retirement Assets:	**$479,750**
Total Assets:	**$1,050,150**

Liabilities	**Current Balance**
Mortgage	$130,332
Sedan Car Loan	$10,396
Visa Credit Card	$3,500
MasterCard Credit Card	$2,000
Total Liabilities:	**$146,228**

Net Worth	
Total Assets	$1,050,150
Total Liabilities	$146,228
Net Worth	**$903,922**

Cash Flow

Your cash flow statement breaks down all of your income and expenses. This allows us to look at each part of your income and spending. We can see how much is being spent compared to how much money is being earned. We are also able to organize it so we can see how much you pay in different expense categories such as taxes or insurance.

Your current cash flow statement shows a deficit of $5,345.76. A deficit means that more money is being spent compared to your income. Based on all of the recommendations provided in this financial plan your new cash flow would show $5,629.56 extra each year. Keep in mind this cash flow does have your tax refund being invested in a Roth IRA. We will adjust Roth IRA contributions yearly to avoid a deficit.

Income	Current Annual Cash Flow	Recommended Annual Cash Flow
Tyler's Income	$68,466.58	$68,466.58
Mia's Income	$32,496.00	$32,496.00
Tyler's Bonus	$34,233.30	$34,233.30
Section 79 income	$118.00	$118.00
Tax Refund	$0.00	$12,300.00
Total Income:	**$135,313.88**	**$147,613.88**
Expenses		
Tyler Federal Tax	$18,668.00	$12,173.72
Tyler State and Local Tax	$4,862.00	$4,691.00
Tyler FICA	$7,800.00	$9,536.00
Mia Federal Tax	$3,510.00	Combined with Tyler
Mia State and Local Tax	$1,404.00	Combined with Tyler
Mia FICA	$2,486.04	Combined with Tyler

Real Estate Taxes	$1,675.00	$1,675.00
Total Tax:	**$40,405.04**	**$28,075.72**
Tyler Retirement Consumer Fund	$2,054.00	$2,054.00
Tyler Retirement Graham Fund	$2,054.00	$2,054.00
Mia Retirement Rocket Fund	$3,249.60	$3,249.60
Sagebrush Fund	$3,000.00	$600.00
Haley G&I Fund	$3,000.00	$1,200.00
Ruth Fund	$3,000.00	$1,200.00
Individual annuity	$3,000.00	$3,000.00
Money Market Account	$1,800.00	$1,200.00
Art and Art Gallery Savings	$1,800.00	$1,800.00
529 Plan	$0.00	$6,600.00
Roth IRA	$0.00	$12,000
Total Savings:	**$22,957.60**	**$34,957.60**
Homeowners Insurance	$700.00	$630.00
Auto Insurance	$2,000.00	$1,800.00
Boat Insurance	$0.00	$100.00
Life Insurance	$2,064.00	$888.00
Health Insurance	$3,600.00	$3,600.00
Umbrella Insurance	$175.00	$175.00
Disability Insurance	$300.00	$300.00
Misc. Insurance	$300.00	$300.00
Total Insurance:	**$9,139.00**	**$7,793.00**
Mortgage Payments	$13,056.00	$13,056.00
Auto Loan Payments	$5,412.00	$5,412.00
Credit Payments	$5,100.00	$5,100.00
Total Loan Payments:	**$23,568.00**	**$23,568.00**
Utilities	$4,200.00	$4,200.00

Other Household Expenses	$400.00	$400.00
Food	$5,100.00	$5,100.00
Clothing	$2,800.00	$2,800.00
Auto Maintenance	$1,500.00	$1,500.00
Medical Copay Costs	$240.00	$240.00
Prescriptions	$240.00	$240.00
Dental and Eye Expenses	$600.00	$600.00
Phone Service	$1,500.00	$1,500.00
Bank Charges	$120.00	$120.00
Personal Care	$1,200.00	$1,200.00
Entertainment	$2,700.00	$2,700.00
Satellite TV	$600.00	$600.00
Dining Out	$3,300.00	$3,300.00
Recreation	$2,700.00	$2,700.00
Travel	$3,000.00	$3,000.00
Church Gifts	$4,200.00	$4,200.00
United Way Gifts	$600.00	$600.00
Home Improvements	$1,800.00	$1,800.00
Dues	$1,800.00	$1,800.00
Subscriptions	$960.00	$960.00
Housekeeping Service	$960.00	$960.00
Pet Care Expenses	$420.00	$420.00
Financial Planning Fee	$0.00	$3,000.00
Total Discretionary Expenses:	**$40,940.00**	**$43,940.00**
Vehicle Tags	$450.00	$450.00
Holiday Giving	$1,800.00	$1,800.00
Gift to University Alumni Fund	$1,000.00	$1,000.00
Tax Preparation Fees	$400.00	$400.00

Total One-Time Yearly Expenses:	**$3,650.00**	**$3,650.00**
Total Expenses:	**$140,659.64**	**$141,984.32**
Shortfall	**($5,345.76)**	**$5,629.56**

Financial Ratios

The financial ratios allow us to quickly look at how your financial situation compares to what would be considered ideal.

The current ratio looks at current monetary assets to see if they could pay off short term debt such as your car loan and credit card debt. Your ratio of 5.18 means that you would be able to pay off your short-term debt with your current monetary assets.

The emergency fund ratio shows how many months your monetary assets would be able to pay your monthly living expenses. This is especially helpful if there was illness or job loss and you were unable to work. Your ratio of 5 months shows that you could pay your monthly expenses for 5 months. We will work on increasing this so you can pay at least 6 months, but you are still doing well with that ratio considering the goal is to have 3-6 months saved.

The savings ratio shows how much is being saved. This considers your savings and employer contributions and compares it to your income. We see that almost 20% of your income is being saved each year which is well above the recommendation of 10%.

The debt ratio shows how much of your assets are financed through debt. We want to keep this under 40% and yours was 14% which is very good.

The long-term debt ratio shows how many times you could pay your debt with your gross income. You would be able to pay 6 years of your long-term debt with your gross income which is well above the 2.5 years recommended.

The debt to income ratio compares your debts (besides your mortgage) to your take home pay. This is meant to show how much you rely on consumer credit so ideally it should be below 15% and yours was just under 9% with your car loan and credit card debt.

A front-end mortgage ratio compares what we call PITI(which is principal, interest, taxes, and insurance for your home) to your gross pay to make sure your housing payments are affordable for your income level. This amount should be under 28% and yours came up to 11% percent meaning that your housing payment is appropriate for your income.

The back-end mortgage ratio looks at the PITI for your home and your other debt payments and compares that to your gross income. This is to make sure that you are comfortably able to pay all of your liabilities with your income. This amount should be under 36% and yours was well below that at 12%.

Ratio	Formula	Bedo Ratio	Recommendation
Current Ratio	$28,500/$5,500	5.18	>1
Emergency Fund Ratio	$28,500/$5,531	5.15 Months	>3-6 months
Savings Ratio	$25,986.48/$135,195.88	19.22%	>10%
Debt Ratio	$146,228/$1,033,050	14.15%	<40%
Long-Term Debt Ratio	$135,195.88/$20,863.20	6.48	>2.5
Debt-To-Income Ratio	$7,812/$89,108.24	8.77%	<15%
Front End Mortgage Ratio	$15,335/$135,195.88	11.34%	<28%-30%
Back End Mortgage Ratio	$16,211/$135,195.88	11.99%	<36%-43%

The net worth statement shows that you are doing well with having your assets higher than your liabilities. The cash flow statement shows some concern as there is a significant deficit. All of your financial ratios are considerably better than the recommendations so there are no concerns there except possibly getting more savings to get your emergency fund above 6 months.

The credit card payments are $5,100 annually. This would free up a significant amount of cash flow when these are paid off and we could look into adjusting your investments at that time. There is no need to pay off the credit card debt early unless it is a concern to you or one of your goals.

One of the goals identified earlier was having an emergency fund. You have a significant emergency fund now so I think you should continue to save towards that and in this plan we do suggest moving the money from the second checking account into your money market account so it will accrue interest. This will help your money build on itself to reach that goal of 6 months sooner.

Tax Analysis

Hill Financial Planning understands that taxes are confusing but important when it comes to your finances. We will review your tax bracket and make recommendations based on the outcomes of this tax analysis. This tax analysis is not being conducted by a Certified Public Accountant (CPA) and should be reviewed by a CPA before relying on this analysis.

We are using the married filing jointly status to conduct this tax analysis for 2019.

Marginal Tax Rate	Income Bracket	Tax Owed
10%	$0-$19,400	10% of taxable income
12%	$19,400-$78,950	$1,940 plus 12% of excess over $19,400
22%	$78,950-$168,400	$9,086 plus 22%of excess over $78,950
24%	$168,400-$321,450	$28,765 plus 24% excess over $168,400
32%	$321,450-$408,200	$65,497 plus 32% excess over $321,450
35%	$408,200-$612,350	$93,257 plus 34% excess over $408,200
37%	$612,350 and up	$164,709.50 plus 37% excess over $612,350

https://www.irs.gov/publications/p501#en_US_2019_publink1000289299

Below we have listed out your income and adjustments to find your taxable income

- Earned Income
    - Wages and bonuses $135,195
- Unearned Income
    - Investment Income $3,520
- Above the line adjustments
    - Health Insurance $3,600
    - Retirement Contributions $7,357

    - Disability $300
- Itemized Deductions
    - Medical 240+240+600= $1,080
    - State Taxes $6,266
    - Real Estate Taxes $1,675
    - Mortgage Interest $10,161
    - Charitable Contributions $5,800
    - Tax Preparation fees $400
    - Total = $25,382
- Standard Deduction $24,400

Itemized deductions are higher than the standard deduction so we will be using that amount.

Total Income	$138,715
Minus above the line adjustments	($11,257)
Adjusted Gross Income	$127,458
Itemized Deductions	($25,382)
Taxable Income	$102,076
Tax Owed	$14,173.72
Tax Credit	($2,000)
Tax Owed after credits	$12,173.72

You are in the 22% federal tax bracket. I am using the tax bracket based on your income for the year rather than the 30% that was assumed earlier.

Missouri State Tax 2019

Adjusted Gross Income= $127,458

Minus deduction and exemptions= $2,800

Household Income= $124,658

I used a state tax calculator that showed a state income tax amount of $4,691

This also showed a state tax rate of 5.40%

This calculator shows FICA taxes estimated at $9,536

Your tax withholdings compared to tax owed

- You have $22,178 withheld for federal tax compared to $12,173.72 tax owed
- You have $6,266 withheld for state tax compared to $4,691 owed
- You have $10,286.04 withheld for FICA tax compared to $9,536 owed

Most of your withholdings are close to your tax due and you still end up not having to pay taxes at the end of the year but you have a significantly higher amount of federal tax withheld compared to the amount you owe. Based on these calculations you will have a tax refund of $12,329.32. We could use this refund to contribute $12,000 to a Roth IRA. The other $300 will be added to cash flow to offset the deficit.

After having these numbers reviewed by a CPA, we can discuss adjusting your federal withholdings so that you can use that money elsewhere.

These estimates were not prepared by a CPA and should be reviewed by a CPA before making actionable recommendations based on these estimates.

Adjusting your tax withholdings would have to be done with your employer’s HR. Tyler, you should speak with your company’s HR to review and adjust FICA withholdings after having a CPA verify these tax calculations.

Personal Insurance Analysis

Life Insurance

Life insurance is a big aspect of a financial plan. It is a plan for the unexpected and helps ease the stress that can come with this life event. Most employers offer life insurance to their employees but at Hill Financial Planning we believe it is important to make sure that insurance is adequate, cost-efficient, and in line with your goals.

Mia and Tyler, you both have a life insurance plan through you employer and a private plan. You each have your private insurance through Manhattan Insurance Company. Both of your whole-life policies have an after-tax rate of return of 5.5% and a death benefit of $100,000. The cash value of Tyler's plan is $8,750 and the premium is $92 a month. Mia's plan has a cash value of $8,350 and a monthly premium of $80. Tyler's employer group term life insurance has a death benefit of 1 times his salary without his bonus. Mia's employer group term life insurance has a death benefit of 4 times her salary.

I will be using the Needs Based Analysis Approach to calculate life insurance needs. This method I believe is the most accurate and gives the clearest picture for each person's life insurance needs.

Name	Debt Reduction	$20,000
Tyler and Mia	Final Illness	$1,500
Tyler and Mia	Funeral Expense	$9,000
Tyler and Mia	Estate costs	$13,500
Tyler and Mia	Spousal Adjustment Expenses	$25,000
Tyler and Mia	Education Funding	$40,806.38
Tyler and Mia	Household Expenses	$115,000
Tyler	Social Security Survivor	$19,104
Mia	Social Security Survivor	$35,160
Tyler and Mia	Funding for survivor's retirement	$100,000

Tyler and Mia	Mortgage Payoff	$130,332
Tyler	Needs if Mia passes	$436,034.38
Mia	Needs if Tyler passes	$419,978.38

Tyler’s current life insurance = $168,466

Mia’s current life insurance = $229,984

Both of you are underinsured based on their life insurance needs.

A 20-year policy for Tyler with $600,000 of coverage would cost $44 per month.

A 20-year policy for Mia with $500,000 of coverage would cost $30 per month.

both of these quotes were found on policygenius.com

These policies could replace both of your current private life insurance policies.

You currently pay $178 per month for both private life insurance policies, this would reduce your monthly payment to $74 a month meaning you would save $108 per month or $1,296 in a year.

I am recommending term life insurance policies as the whole life policies are significantly more expensive. The 20-year term life policies would carry both Tyler and Mia to their retirement age and would ensure time for their daughter Becky to no longer be a dependent and be in school.

I would recommend completing the quotes through policygenius.com and purchasing a new insurance policy within three months. Do not cancel current private life insurance policies until new policies are in place to avoid any gaps in coverage. These policies will be in addition to both workplace life insurance policies.

Health Insurance

Health insurance is a necessity to avoid financial strain. Health care costs are constantly rising and are a top cause of bankruptcy in the U.S. It is important to have health insurance to cover those large expenses as they come up. Health insurance is especially important for families with children due to unexpected illness and injury and the expenses that accompany that.

Health insurance is currently through Peacock & Peacock through Tyler’s employer. The premium is $300 a month.

Current costs are:

$450 annual deductible

$20 per doctor appointment

$40 per special visit

$100 copay for emergency treatment

$10 generic prescriptions

$25 brand name prescriptions

Discretionary cash flow is used for dental and eye care expenses which is about $50 per month. We recommend utilizing the flexible spending account to cover the $50 per month or $600 a year for dental and eye care expenses. The contributions would be pretax and would not be taxed if used for qualified health expenses such as dental and eye care. The $240 spent on prescriptions and the $240 spent on medical copays can also be funded through the FSA. The $1,080 is already built into the cash flow so there would be no need to try and find the funds for this. Otherwise health insurance seems to be adequate for the family. If we are able to find extra discretionary cash flow, then we can look into dental and eye insurance plans for the family. Mia and Tyler should each check with their employer to see if they offer eye and dental insurance or if the company offers any discounts on eye or dental insurance policies. The flexible spending account should be utilized immediately meaning you should start contributing to the policy now so that you will have the $1,080 needed for the year.

Disability Insurance

Disability insurance is important in the case of an unexpected loss of income. Disability insurance can replace income if you are no longer able to work. Both short- and long-term insurance are important aspects of a financial plan and can save a family from financial strain.

Name	Tyler	Mia
Yearly expenses Need	$70,329.82	$70,329.82
Earned Income in Disability	$32,496	$68,466.58
After tax income	$24,372	$51,349.94
Yearly Shortfall	$45,957.82	$18,979.88
Monthly Shortfall	$3,829.82	$1,581.66
Short Term Disability Monthly Amount	$8,558.32	$2,031
Long Term Disability Monthly Amount	$5,134.99	$1,421.70

Tyler and Mia both have a short- and long-term disability policy. Both of Tyler's policies are paid for by his employer. Mia's short-term policy is company paid but she pays $25 per month with pretax dollars for a long-term policy.

Both short term policies pay 100% of salary and bonus for a benefit period of 90 days with no wait period. Tyler's long-term policy will pay 60% of salary and bonus until the age of 65 (90 day wait period). Mia's long-term policy will pay 70% of salary and bonus until the age of 65 (90 day wait period).

Your disability insurance is great because your short term coverage will cover you for the first 90 days and then the waiting period is over for the long term policies so that will start as soon as your short term coverage ends. The salary replacement is pretty standard for long term policies. They have a significant amount of coverage and only pay $25 per month in pretax dollars for their coverage.

There is a small shortfall in long term disability coverage in the case of Mia becoming disabled. I think that this shortfall could be made up in other areas or through the use of investment assets, so I do not think there is a need to change disability coverage.

Long Term Care Insurance

Long-term care insurance can easily be overlooked but is vital to a thorough financial plan. Long-term care insurance provides coverage as people move into nursing homes or need a caretaker due to age or illness.

Currently both of you have no long-term care insurance.

The following assumptions are being used:

- Annual nursing home expenses are $49,000
- Average age to enter assisted living is 75 with an average stay of 2.5 years
- Average age to enter a nursing home is 83 with an average stay of 1.5 years
- Long-term care expenses are increasing at 5% per year

I completed a quote online at genworth.com for Tyler and Mia.

Annual nursing home expenses are $49,000 and I divided that by 365 days in a year to find the daily maximum for an insurance quote.

$49,000/365 days = $132.25 per day.

For the quote I used a daily maximum of $150 with a benefit period of 3 years as that is above the average stay.

The quote showed that the annual premium would be $1,223.54 for Mia and $1,223.54 for Tyler. This would add $2,447.08 to your annual expenses.

This insurance does not need to be purchased right away but the topic should be revisited at age 50. Insurance should ideally be purchased between age 50 to age 55. The cash flow for these premiums will most likely come from reduced expenses as Becky is older and reduced savings as some goals are met.

Property and Casualty Insurance

Property and Casualty insurance refers to auto insurance, home insurance, and your umbrella policy. There are other types of insurance for different types of property such as a boat or a motorcycle. It is important to make sure that you have sufficient insurance to cover liability in the case that someone else is injured and enough insurance to cover property if it is damaged.

A few things to note regarding insurance risk based on your location:

- You are not in a flood or earthquake prone area
- You are in a tornado and storm prone area

Current property and casualty insurance overview

Type	Auto Policy	Auto Policy	HO-3 policy	Excess Liability
Company	Missouri Valley Insurance Corporation	Missouri Valley Insurance Corporation	Missouri National Insurance	Missouri National Insurance
Liability Coverage	100/300/50 $100,000 uninsured/ underinsured motorists	100/300/50 $100,000 uninsured/ underinsured motorists	$100,000	$500,000
Premium	$500	$500	$700	$175
Payment Frequency	Semi-Annually	Semi-Annually	Annually	Annually

The auto policy coverage includes medical payments, car rental coverage and towing. Your current coverage has a $500 deductible for comprehensive coverage and a $500 deductible for collision coverage.

Your homeowner's policy is an HO-3 policy. An HO-3 policy will cover losses to the home itself and other structures on the property such as a garage. It covers all perils except flood, earthquake, war, and nuclear attack. The HO-3 policy has a $500 deductible, and the home is insured for $225,000. There is an endorsement that covers replacement value on the contents. We are not sure at this time if there is an inflation endorsement.

After completing various quotes online, I believe you have the most cost-efficient insurance policies and good range of coverage.

I would first of all recommend bundling your home and auto policies, most companies give a discount for bundling home and auto coverage. To implement this recommendation, you would call Missouri Valley Insurance Corporation and get a quote for what it would cost to add a home and umbrella policy to those auto policies. You would then call Missouri National Insurance and get a quote for what it would cost to add both auto policies to your home and umbrella coverage. I would like you to get both quotes as soon as possible so we can switch your policy over if needed. We will estimate a 10% reduction in premiums after bundling as that is the average discount which will be reflected in the updated cash flow.

My second recommendation would be to discuss boat insurance. I would like to discuss amount of use, where it is used, and your opinion on insuring it. I completed a quote through Progressive Insurance which quotes that an annual boat policy with 100/300/50 liability coverage, uninsured/underinsured coverage, medical payments, and comprehensive and collision coverage with $500 deductibles would cost $100 annually. This is fairly inexpensive for the amount of coverage you would be provided. We will discuss this and get both of your opinions before implementing this recommendation.

You have personal assets that we may want to insure separately such as the yard equipment, jewelry, signed Calloway golf club, sporting equipment, and golf art. This totals to $30,500 in assets. We will need to look at the declaration pages of your current homeowners' policy to look at any endorsements or provisions about the assets listed above. After looking at the declaration pages we can decide if separate insurance needs to be taken out on these assets and what that would look like in regard to your cash flow.

Missouri Valley Insurance Corporation, Missouri National Insurance, and Progressive insurance all have an A.M Best Rating of an A. This rating measures financial strength of an insurance company. An A means that these companies are considered excellent when it comes to financial strength. Your home, auto, and umbrella coverage policies are all with A rated companies. The quote I provided for boat insurance was through Progressive which is another A rated company.

Investments for Non-Retirement Goals

This section allows us to look at your financial goals that we will use investments to reach (excluding retirement). We will talk about investment options to save for Becky's education and then we will talk about other goals that we have identified.

Planning Assumptions:

- Inflation increases at 3% per year
- Education costs are increasing at 5% per year
- Moderately conservative risk tolerance is what will be used for all non-education investments which expects a 7.75% return before tax
- Moderately aggressive risk tolerance will be used for education goals which expects a 10% return before tax.

Cost of Goals:

Goal	Cost in Future Dollars
Becky's Education	$162,548
Addition to the home	$36,123
Art Gallery	$144,489
Emergency Saving	$33,186

Becky's Education

College tuition is currently $20,000 a year in today's dollars. Becky's first year of college will be in 13 years and tuition is increasing at 5% per year. Her first year of college will cost $37,713. Her second year will cost $39,599. Her third year will cost $41,579. Her fourth year will cost $43,657. Her total college expenses will equal $162,548

Addition to the Home

The addition would cost $20,000 in today's dollars. You are 42 now and this goal would be accomplished in retirement so we can assume age 62. That allows 20 years to save for this goal and with 3% inflation the goal will cost $36,123 approximately in future dollars.

Art Gallery

The art gallery will cost $80,000 to open in today's dollars. This is another in retirement goal so we will assume age 62 which allows 20 years to save. This goal will cost $144,489 in future dollars.

Emergency Fund- A 6-month emergency fund would require $5,531*6 months = $33,186.

Current Investment Assets

Fund	Value	Current Yield
Savings	$10,000	3%
Checking	$3,500	0%
Money Market	$10,000	3%
Checking for Art	$5,000	0%
Misc EE Bonds	$25,000	3.5% deferred
Haley G & I	$69,000	3.2%
Konza Fund	$43,000	1.75%
Ruth Fund	$13,000	4%
Sagebrush Fund	$8,000	0.5%

Time Value of Money Calculations for Each Goal

Becky's Education

PV=0

PMT=?

FV=$162,548

N=13 years

I/Y=10%

$6,629 would need to be saved annually or $553 monthly

Home Addition

PV=0

PMT=?

FV=$36,123

N=20 years

I/Y=7.75%

$812 would need to be saved annually or $68 monthly

Art Gallery

PV=0

PMT=?

FV=$144,489

N=20 years

I/Y=7.75%

$3,246 would need to be saved annually or $271 monthly

Current savings have almost met the emergency fund goal so it may not be necessary to invest to meet this goal.

Recommendations

We would recommend using a 529 plan for Becky's college savings as it is a tax advantaged savings plan. The earnings will grow tax free in a 529 plan and will not be taxed when they are withdrawn as long as the funds are used for qualified education expenses. You need to save $533 monthly. You could drop your contributions to the sagebrush fund to $50 as that one has the lowest returns. This gets you $200 a month to put towards education savings. The Haley G&I fund, and Ruth fund could drop to $100 each which gets you another $300 each month. Your money market savings could then drop to $100 which gets you another $50 per month. After all of these adjustments you would have $550 to put towards Becky's education each month. We recommend starting a Vanguard account and creating a 529 plan for Becky within the next 90 days. Then you can start your new asset allocations to include the 529 plan.

You would then have $250 being invested each month to put towards the art gallery and the home addition. You need to be saving $339 per month for both of these goals. You have $425 being paid to credit cards each month. You can contribute the $250 per month for now and once those cards are paid off, you would be able to save about $400 per month to make up the savings.

For your emergency savings, current savings and checking accounts equate to $28,500. This means you need $4,686 to reach your goal of having a 6-month emergency fund. I would recommend moving the money from the second checking account into the money market account so that money can earn compound interest. You would then have $3,500 in checking with no interest. $10,000 in your savings account earning 3% and $15,000 in your money market account earning 3% interest.

PV=$25,000

FV=$29,686

PMT=$1,200

I/Y=3%

N=2.36

In just under two and a half years with current allocations you would have a six-month emergency fund. We could contribute slightly more to this emergency fund to have it established sooner but I think it is more important to get a larger goal like Becky's education started first.

Fund	Current Allocations	Updated Allocations
Sagebrush Fund	$250	$50
Haley G&I Fund	$250	$100
Ruth Fund	$250	$100
Money Market Account	$150	$100
529 Plan	$0	$550

You will not move any money that is currently in any of your investment accounts, but you will change your monthly contributions to your investment accounts. The above table shows your current allocations and updated allocations.

Investment Policy Statement

For Tyler and Mia Bedo

The investment policy statement is meant to assist Hill Financial Planning in implementing and monitoring the investment assets of Tyler and Mia Bedo. This document sets forth:

- Attitudes and expectations for investment assets
- Procedure for managing assets
- Provides guidelines for risk profile and liquidity of the portfolio
- Establishes criteria for monitoring assets and portfolio performance
- Complies with legal requirements and fiduciary duty

Clients:

Tyler and Mia Bedo

Age 42

727 Success Lane

Springfield, MO

Advisor:

Hill Financial Planning

Bailey Warrick

Objectives:

- Achieve maximum return on assets in line with clients accepted risk levels.
- Adjust returns for inflation
- Invest in appropriate funds accounting for client goals and timelines of those goals.

Guidelines and Investment Policy

The portfolio is meant to accumulate wealth for non-retirement goals and for retirement income needs.

The portfolio timeline will be dependent on each specific goal but will be about 20 years.

The risk tolerance of this portfolio is set forth based on client's accepted risk level which has been indicated as moderately conservative for most goals but moderately aggressive for education savings goals.

We cannot guarantee portfolio performance but will strive to provide the most successful portfolio we can. We look at investments based on risk and expected return. We also consider any tax advantages and the impact that will have on the investment's return.

Your portfolio will be reviewed at least once a year when your financial plan is reviewed and updated. It can be reviewed more often as needed or requested.

If you agree to this investment policy statement then please sign below,

Bailey Warrick

____

Tyler and Mia Bedo

____

____

Retirement Goals

Retirement planning is something that everyone will need to consider at some point. Retirement is mostly funded by individuals rather than employer pension accounts. This means people have to consider life expectancy, years in retirement, retirement lifestyle and a number of other factors to determine how much they need to save for retirement. We try to make this process as easy as possible for you and make you feel secure in your retirement plan.

Planning Assumptions

- The art gallery and home addition goals are goals that will be accomplished in retirement, but these goals are discussed in the non-retirement goals section.
- You will need 85% of your current salary before tax in retirement.
- We are assuming a moderately conservative return based on your risk level which would be 7.75% before retirement.
- Once in retirement we will assume a conservative return which would be 5.25%.
- Social Security retirement age is 67 for Tyler and Mia.
- Your life expectancy is 95 years.
- Your income is expected to increase at the rate of inflation.
- You do not want to deplete your assets in retirement.
- You plan to increase retirement contributions 3% each year.
- Primary insurance for Tyler at age 67 is $2,200 in today’s dollars.
- Primary insurance for Mia at age 67 is $1,300 in today’s dollars.
- Annual benefits will increase by 8% each year that Social Security benefits are delayed between age 67 and 70.

Goals

- You both want to retire at age 62
- You want to be self-sufficient in retirement and not deplete assets
- You want to be able to take trips occasionally in retirement
- You want to take Social Security benefits as soon as possible
- You want to leave a legacy for your daughter

Current Retirement Assets

Tyler's 401(k)	$203,000
Tyler's traditional IRA	$52,000
Mia's 401(k)	$15,250
Mia's Rollover IRA	$32,500
Mia's traditional IRA	$52,000
Mia's annuity	$125,000
Total Retirement Assets	$479,750

Your retirement assets are currently tax deferred meaning you will pay taxes when the funds are withdrawn.

Tyler's employer matches 100% of the contributions up to 3% of your base salary for contributions made to the Graham Fund. Tyler is currently saving 6% of base salary ($4,108 annually), 3% to the Graham Fund and 3% to the Consumer Fund. Tyler's employer is contributing $2,054 annually for matching contributions.

Mia's employer matches 50% of the contributions up to 6% of base salary. Mia is saving 10% of her base salary ($3,250 annually). Mia's employer is contributing $975 annually for matching contributions.

Your total retirement contributions including employer matching is $13,387 which is about 10 percent of your gross earned income.

You want to take Social Security benefits as soon as possible. The following table shows what your benefits would be at age 62 which is the earliest possible, age 67 which is normal retirement age, and age 70 which would be maximum benefits.

Age	Tyler's Benefit Amount	Mia's Benefit Amount
62	$1,540	$910
67	$2,200	$1,300
70	$2,728	$1,612

Capital Needs Analysis

Assumptions

Annual Household Income is $135,195.88

Current Retirement Assets are $479,750

Tax deferred Annual Savings including employer match is $10,386.47

After tax annual savings are $3,000

Retirement income replacement is 85%

20 years until retirement (current age is 42, retirement age is 62)

33 years in retirement (retirement age is 62, life expectancy is age 95)

Inflation is 3% before and during retirement

Assumed return in retirement is 5.25%, 2.18% after adjusting for inflation

Assumed return before retirement is 7.75%, 4.61% after adjusting for inflation

Calculations

$135,195.88 * 85% income replacement = $114,916.50 needed in retirement in today's dollars

Amount needed at age 62 adjusting for inflation is $207,551.98

Future value of tax deferred retirement assets is $2,134,816.55

Future value of tax deferred savings is $578,087.18

Future value of after-tax savings is $166,973.11

Future value of Social Security is $1,102,656.70

Total Available on first day of retirement is $3,982,533.53

Amount needed for capital depletion is $4,950,371.19 so an additional $967,837.66 is needed or $21,742.21 annually

Amount needed for capital preservation is $5,865,133.61 so an additional $1,882,600.08 is needed or $42,292.10 annually

Recommendations

- To retire at age 62, you will need to start maximizing contributions. The maximum IRA contribution is $6,000 for each person for 2019 which means you should be contributing $12,000 annually to IRA's. You will have a tax refund of $12,329.32 which means $12,000 can be used to maximize IRA contributions.
- Wait to take Social Security benefits until age 70 to maximize benefits for both Tyler and Mia.
- Consider waiting until age 65 to retire. This will reduce the amount needed at the start of retirement by $622,655.94. This would reduce the amount needed for capital depletion to $345,181.72. It would reduce the capital preservation need to $1,259,944.14. This would also allow 3 more years to save and 3 more years for interest to continue to compound.

Estate Planning

Estate planning is arguably the most important aspect of anyone's financial life. Estate planning decides what happens to your assets after your death. A good estate plan can make your family's lives easier after your passing even though you won't be able to see it. Proper estate planning is about minimizing taxes, maintaining privacy, making sure assets are divided according to your wishes, and could include leaving an estate for your family.

Planning Assumptions

- We are assuming that your gross estate, debt, loans, and other financial items will appreciate at 4%
- Funeral and administration expenses are assumed at $9,000 per person and these expenses will grow by 4% each year
- Executor fees are estimated at $13,500 each

Goals

- Avoid probate and maintain privacy for the family's finances
- Minimize estate costs by avoiding probate and minimizing taxes
- To provide for Becky and leave an estate as large as possible for her
- Ensure that assets are distributed according to client wishes

Current Estate Situation

Checking Account	$4,250
Savings Account	$5,000
Money Market Account	$5,000
EE/I Bonds	$12,500
Mutual Funds	$26,500
Primary Residence	$125,000
Vehicles	$17,750
Personal Property	$40,650
Retirement Assets	$239,875

Gross Estate	**$644,992**
Less Funeral Expenses	$9,000
Less Executor Fees	$13,500
Less Mortgage and Debts	$73,114
Adjusted Gross Estate	**$549,378**

Spouse's Estate after Marital Deduction Transfer

Checking Account	$4,250
Savings Account	$5,000
Money Market Account	$5,000
EE/I Bonds	$12,500
Mutual Funds	$26,500
Primary Residence	$125,000
Vehicles	$17,750
Personal Property	$40,650
Retirement Assets	$239,875
Life Insurance	$230,000
Marital Transfer	$549,378
Gross Estate	**$1,255,903**
Less Funeral Expenses	$9,000
Less Executor Fees	$13,500
Less Mortgage and Debts	$73,114
Adjusted Gross Estate	**$1,160,289**

You will not have any estate tax liability based on our analysis. Each of you receives an estate tax exemption of $11,180,000 or $22,360,000 as a couple. You will have no estate tax unless the value of your estate exceeds that amount.

Your current will was prepared three years ago without the help of an attorney and Mia's sister Barbara was named as the guardian for Becky. Mia's assets would be left to Tyler and Tyler's assets would be left to Mia. You have not named an executor or looked at your will since it was created three years ago.

Recommendations

- Have a will drafted up by an attorney in the next 30 days. Hill Financial Planning is able to provide recommendations to you if needed. An attorney will be able to provide advice and make sure that the will contains all necessary information. The expected cost of this is $2,000 but will not impact month to month cash flow. Savings can be used to pay for this service.
- Ensure that all investment assets have beneficiaries assigned. You currently have all assets going to the other spouse. In the unexpected event that both of you would pass at once you would want to ensure that assets go to the person of your choice. This can be added into your will when you draft it with the attorney. You can also check on each of your investment and real assets in the next 30 days to see if you have a beneficiary(ies) assigned. There will be no cost or impact on cash flow to implement this recommendation.
- Have a letter of last instruction written up with your will. This is typically included in the cost of having a will drawn up with an attorney. They will be able to instruct what information needs to be provided.
- Discuss Becky's named guardian before meeting with the attorney to draft a will. Ensure that you are still comfortable with Barbara being Becky's guardian. Make sure that Barbara agrees to this as well. Include any information Barbara would need in a document that is kept with your will.
- Have a trust established for your assets to avoid probate for assets that cannot have a beneficiary assigned. You can also make sure your property is titled jointly so that it will be passed between the two of you, then you can name a beneficiary or establish a trust in the case that both of you would die at once.

Continually reread and have your will updated anytime the information is out of date or needs to be changed. This will help your family maintain privacy and avoid the publicity and costs associated with probate.

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