

Summer 2019

## Bedo case study

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**A Comprehensive Financial Plan**

**For:**

**Mia and Tyler Bedo**

January 24, 2019

**Prepared By:**

**Glenn A. Harris**

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**Strategic Planning Family**

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-Confidential-

(Fictitious names being used throughout document).

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## Executive Summary

## Letter to Client

**Mr. and Mrs. Tyler and Mia Bedo**

**727 Success Lane**

**Springfield, MO 65619**

Dear Tyler and Mia,

Thank you for providing me an opportunity to learn more about you and your financial goals. I am looking forward to working with both of you to identify your short-term and long-term goals, as well as your dreams. The creation of a financial plan allows us to understand your current financial situation. We do this so that we can extrapolate a plan to help you achieve your future goals. After we review your current financial state, asset allocation, future retirement, estate plan, and a tax strategy.

Educating our clients promotes financial success, so over the first quarter we will meet once a month to discuss the financial progress you have made, and to answer any questions you might have. Prior to these meetings, please bring any relevant material and write down any questions you have. If you get an opportunity, you can email these before our meeting. Following the first quarterly review, we will start to meet once a quarter. This is to make sure that we're still on the right track and to add additional changes if needed.

Office availability is Monday to Saturday, and our office hours are 7:00a to 6:00p. Newsletters are sent out quarterly and access to other services can be accessed via our website ([www.strategicplanningfamily.com](http://www.strategicplanningfamily.com)). We look forward to working with you. Thank you.

## Copy of the Original Client Engagement Letter

### **Strategic Planning Family**

4555 Research Blvd

Springfield, MO 65619

866-784-1900

[StrategicPlanningFamily@gmail.com](mailto:StrategicPlanningFamily@gmail.com)

January 24<sup>th</sup>, 2019

Dear Mr. and Ms. Bedo:

Please allow this letter to confirm our mutual understanding and engagement. We are pleased to have you as a client and we're looking forward to forming a life-long relationship with you. The financial planning process is an important part of establishing financial success. We thank you for allowing Strategic Planning Family to help build your future. Our team analyzes your current financial picture, and with your help, we create short-term and long-term goals. Some of the services we provide are:

- Asset allocation and cash flow planning
- Tax services
- Retirement planning

- Estate planning
- Insurance
- and Investment planning.

Over the first quarter we will meet once a month to discuss the financial progress you have made, and to answer any questions you might have. To best assist you as our customer we will need you to provide financial documents in a timely fashion. These documents need to be up-to-date and accurate for us to provide an effective financial plan. We value our client's information so we make sure to keep it confidential.

### **Our First Meeting**

- The first phase in our financial planning journey will be to get to know more about you and your current financial situation. We will explain terms and go over short-term and long-term objectives and goals.
- The second phase will be to analyze your asset allocation and expenses, and cash flows. From this information we will infer what financial plan should be taken and provide a detailed plan for you.
- Finally, we will further provide detail and recommendations and address any questions or concerns that you might have.

### **Explanation of Compensation and Fees**

Our contract and professional relationship will last for 12 months, until January, 24<sup>th</sup> 2020. Our fees will be based on a flat fee of \$2,500. This fee can be paid in 6 installments every two months.

### **Amending the contract**

If there is a breach of contract or any disputes that cannot be resolved, we will work with an arbitrator to amend or terminate this contract.

### **Firm Name:**

Strategic Planning Family

### **Client's Names:**

Mia Bedo, Tyler Bedo

**Signature & Date**

\_\_\_\_\_ Date: \_\_\_\_\_

## Introductory Materials

### **SPF's Mission Statement**

Strategic Planning Family's vision is to lead and educate our clients so that they can achieve their dreams of financial independence.

### **SPF's Core Values Statement**

We believe that transparency, client education, and expert knowledge provides greater success.

### **Ethics Statement**

SPF values our integrity, honesty, objectivity, and competence in all areas of financial planning. It is our fiduciary responsibility to put our customers first and do what is in their best interest.

### **Privacy Statement**

At Strategic Planning Family we value our commitment to our client's privacy. It is our policy to safeguard our client's information. We do not sell or distribute information we obtain from our clients. The information you provide to us is specifically used to form your financial plan. All material submitted to us will be returned to you.

### **SPF's Mailing address for privacy notices is:**

SPF Privacy



4555 Research Blvd

Springfield, MO 65619

## Investment Policy

### Summary

Mia & Tyler Bedo, Married investors, both are 42 years old

Portfolio: Married, Taxable

State: Missouri

Tax IDs: xxx-xxx-xxxx, xxx-xxx-xxxx

Assets:

ROI: 5%

### Investment Goals and Objectives

- Risk assessment: Moderately Conservative
- Asset & Cash Flow growth
- Expected Rate of Return is 5%

### SPF's responsibilities

- Make decisions based on the client's best interest
- Make decisions based on the client's risk level
- Manage and evaluate investment performance
- Supply monthly and quarterly reports
- Contact the client every quarter to discuss the plan

### Asset Allocation

- Government Bonds
- AAA Corporate Bonds
- BBB Bonds
- REITs
- S&P 500 Index Fund
- Small Cap stocks
- Large Cap growth stocks
- Dividend Stocks

## Client Profile & Assumptions/Goals

### Client Information:

<b>Names:</b>	<b>Tyler</b>	<b>Mia</b>
<b>Age:</b>	<b>42</b>	<b>42</b>
<b>Retirement Age:</b>	<b>62</b>	<b>62</b>
<b>Life Expectancy:</b>	<b>95</b>	<b>95</b>
<b>Annual Income:</b>	<b>\$68,466.58</b>	<b>\$34,496.00</b>
<b>Employer Bonus:</b>	<b>\$34,233.33</b>	<b>\$0</b>

**Risk Tolerance: Moderately Conservative**

### Mia & Tyler's Assets

**Personal Assets**                      **\$81,300**

<b>Monetary Assets</b>	<b>\$28,500</b>
<b>Investment Assets</b>	<b>\$158,000</b>
<b>Retirement Assets</b>	<b>\$479.750</b>

<b>Cash Flow Statement</b>		
<b>Income Summary</b>		
<b>Names</b>	<b>Tyler</b>	<b>Mia</b>
Wages and Salaries	\$68,466.58	\$34,496.00
Bonuses	\$34,233.33	\$0
<b>Total Annual Income</b>		<b>\$137,195.91</b>
<b>Total Monthly Income</b>		<b>\$11,432.99</b>
<b>Tyler</b>		
<b>Tyler's Income</b>	<b>\$8,558.33</b>	<b>\$102,699.91</b>
Federal income tax withholding	-1555.666667	-18668
State and local income tax withholding	-405.1666667	-4862
FFICA (Socil Security and Medicare) tax withholding	-650	-7800
	\$5,947.49	\$71,369.91
<b>Mia</b>		
<b>Mia's Income</b>	<b>\$2,874.67</b>	<b>\$34,496.00</b>
Federal income tax withholding	-292.5	-3510
State and local income tax withholding	-117	-1404
FFICA (Socil Security and Medicare) tax withholding	-207.17	-2486.04
	\$2,258.00	\$27,095.96
<b>Total Income</b>	<b>\$8,205.49</b>	<b>\$98,465.87</b>
<b>Expense Summary</b>		
	<b>Monthly Amount</b>	<b>Annual Amount</b>
Sagebrush Fund	250	3000
Haley G&I Fund	250	3000
Ruth Fund	250	3000
Individual conservative fixed-annuity contract	250	3000
Money Market Account	\$150	1800
Real Estate Taxes	\$139.58	\$1,675.00
Homeowners Insurance	\$58.33	\$700.00
Utilities	\$350.00	\$4,200.00
Yard service/Trash	\$33.33	\$400.00
Food/Groceries	\$425.00	\$5,100.00
Clothing	\$233.33	\$2,800.00
Auto Maintenance	\$125.00	\$1,500.00
Auto Insurance premiums	\$500.00	\$6,000.00
Missouri Vehicle Plate/Tag Tax	\$37.50	\$450.00
Mortgage loan payments	\$1,088.00	\$13,056.00
Auto Loan payments	\$451.00	\$5,412.00
Charge & Credit Card payments	\$425.00	\$5,100.00
Medical costs(copay)	\$20.00	\$240.00
Prescriptions	\$20.00	\$240.00
Dental and eye care expenses	\$50.00	\$600.00
Life insurance premiums	\$172.00	\$2,064.00
Medical insurance premiums	\$300.00	\$3,600.00
Umbrella insurance premiums	\$14.58	\$175.00
Disability insurance premiums	\$25.00	\$300.00
Other misc. insurance premiums	\$25.00	\$300.00
Telephone (landline & cell)	\$125.00	\$1,500.00
Bank Charges	\$10.00	\$120.00
Personal Care	\$100.00	\$1,200.00



You both have good paying jobs, but your cash flow is negative. Currently it's -405.84 a month. We will need to examine your expenses and look for ways to reduce your monthly expenses. We'll work on reducing loan balances on your home, car, and make sure you're contributing enough to your 401(k) plans. Your credit card debt is manageable and the loan payoff you have left on your vehicle is relatively low. The vehicle's interest rate is pretty low at 3.9%. The two of you have over a million dollars in assets and a net worth of \$ \$903,922. You've already started investing in bonds and other investment funds.

### What is not working?

Jointly, you both have a savings account but the amount is relatively modest considering your cash flow and lifestyle. We don't currently have a 6 month emergency fund in place for you and will need to start saving for that. Your credit cards debt needs to be paid off as soon as possible because your Mastercard has an interest rate of 16.75% and your Visa credit card that has an interest rate of 18.25%. The interest amount is way too high. I think using credit cards to purchase things and pay bills is great but we need to pay these credit cards off and make sure that they're paid off every month.

### Financial Ratios

As we stated earlier, your emergency fund is too low. Currently, you have \$28,500 in savings which does not meet the 6 month emergency requirement.

**Our Emergency fund ratio** = Monetary assets/Monthly living expenses ( $\$28,500/\$7,064.33 = 4.03$  months)

We have set the benchmark to 6 months.

(Monthly Expenses \* 6 months)  $\$7,064.33 * 6 = \$42,386$  needed

We're currently short  $\$13,886$  ( $\$42,386 - \$28,500 = \$13,886$ )

### Current Ratio

The current ratio measures your liquidity or your ability to pay off all short-term debt.

**Current Ratio** = Monetary Assets/Current Liabilities(Short-term debts)

$\$28,500 / (\text{Car} + \text{Both credit cards}) \$10,396 + \$3,500 + \$2,000$

$\$28,500 / \$15,896 = 1.79$

Presently, this is above the benchmark of less than "1". We will need to continue to save for both your emergency fund and to increase your liquidity.

### Back End Ratio

To qualify for a refinance, it is important that we review your backend ratio

**Backend Ratio** = Annual Mortgage (Principal, Interest, Taxes, & Insurance) + minimum credit card payments + Auto Payment / Monthly Gross income

**Backend Ratio** =  $(\$1,088 + \$140 + \$60 + \$451) / ((\$137,196 / 12) = \$11,433)$

$\$1739 / \$11,433 = 15.21\%$

The benchmark is listed as less than 36% for a conventional loan or less than 43% for a government loan. We are in a great place for both, based on our back-end ratio.

To reduce the amount of interest you pay on your mortgage and pay it off faster we could refinance your home at a lower rate and for a 15 year term. As shown in the Mortgage Amortization Schedule (listed earlier in this financial plan), you're paying 7.875% interest on your home monthly. The average interest rate on a mortgage loan is currently 4.5%. You have \$130,332 (After 124 payments) remaining to be paid off on your mortgage. You have just under 20 years of payments left on your house. You could refinance your house at a lower amount with a 180 term.

If we refinance your house at:

**Home loan value** = \$130,332

**Term (15 year loan)** = 180 months

**Interest rate** = 4.5%

Your new payment is estimated to be **\$997.03** (This does not include the \$5,000 refinance fees)

The link to the proposed Amortization Schedule is in the [Appendix](#)

### Client- Based Recommendations

After analyzing your savings, level of liquidity, and mortgage loan, we are advising that you focus on saving more towards your savings account for emergency and to pay off short-term debt, if needed. The interest rate on your mortgage loan is too high when compared to today's average interest rates. We suggest that you refinance your home from a 30 year loan to a 15 year loan at a 4.5% interest rate.

## Income Tax Planning

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### Overview

Strategic Planning Family understands how imperative taxes are in creating a successful financial plan. Making specific changes to parts of this financial plan can result in greater returns and tax reduction. The following is a summary of your tax situation.

Not an "Accountant" disclosure

Strategic Planning Family does not provide legal or accounting advice. We have prepared the following tax review for informational reasons only. Please do not use this for legal or tax purposes and contact a legal or tax professional for those services.

### Current State

#### Married

- Filing Jointly



**Social Security Rate**

- 6.2%

**Inflation**

- 3%

**Federal Tax Bracket**

- 25%

**State Tax Bracket**

- 5%

In order to understand where we need to go and how to get there we have to understand the current state of your finances. The following shows your earned income, federal and state tax withholdings.

<b>Annual Income</b>	<b>Tyler</b>	<b>Mia</b>
Earned Income	\$68,466.58	\$34,496.00
Bonus	\$34,233.33	\$0

**Total Combined Income = \$137,195.91**

**Payroll Taxes****Tyler's Taxes**

Annual Federal Tax Withholding = \$18,668

State and local income tax withholding = \$4,862

Social Security and Medicare = \$7,800

Total = **\$31,330**

**Amount of Medicare Tax being withheld from each paycheck**

Tyler's Medicare tax per pay period is

$\$2,633.33 \times .0145 = \$38.18$  cents is withheld from Tyler's taxes for Medicare per pay period

**Mia's Taxes**

Annual Federal Tax Withholding = \$3,510

State and local income tax withholding = \$1,404

Social Security and Medicare = \$2,486.04

Medicare calculation

Total = **\$7,400.04**

**Amount of Medicare Tax being withheld from each paycheck**

Miss Medicare tax per pay period is

$\$1,249.85 \times .0145 = \$18.12$  cents is withheld from Mia's taxes for Medicare per pay period

### Federal Tax Withholding

The taxes for federal are calculated by using the 1040 form. The standard deduction is \$12,700 for 2017, as shown on Line 15 of the 1040.

15. Missouri standard deduction or itemized deductions.

- Single or Married Filing Separate - \$6,350
- Head of Household - \$9,350
- Married Filing Combined or Qualifying Widow(er) - \$12,700

If age 65 or older, blind, claimed as a dependent, see page 8. If itemizing, see Form MO-A, Part 2.

#### Itemized Deductions Worksheet

15	12,700	.00	Line 15
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### State Tax Withholding

The taxes for federal are calculated by using the MO-1040 Form.

Standard state tax deduction for a 529 College Savings Plan is \$16,000 annually, for a married couple in 2017.

### Social Security and Medicare Tax

Presently, the Social Security tax rate is 6.2% for employers and employees.

### Tax Brackets

The 2017 Tax Bracket is listed below

2017 MARRIED INDIVIDUALS FILING JOINTLY AND SURVIVING SPOUSES					
Taxable Income		But Not Over	Pay + Excess	% on	of the amount over
Over					
\$0	—	18,650	\$0	10%	\$0
18,650	—	75,900	1,865.00	15%	18,650
75,900	—	153,100	10,452.50	25%	75,900
153,100	—	233,350	29,752.50	28%	153,100

#### The income is calculated by taking

- I. Total Income - \$75,900 or ( $\$137,196 - \$75,900 = \$61,295.91$ )

#### Total Tax Obligation for Earned Income:

- I.  $\$10,453 + (\$61,296 * .25)$
- II.  $\$10,453 + \$15,324 = \$25,776$

The 2018 Tax Bracket has changed for the year 2018 and is listed below

### 2018 Income Tax Brackets

Rate	Individuals	Married Filing Jointly
12%	\$9,526 to \$38,700	\$19,051 to \$77,400
22%	38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000

#### The income is calculated by taking

- II. Total Income - \$82,500 or ( $\$137,196 - \$82,500 = \$54,696.00$ )

#### 2018 Total Tax Obligation for Earned Income:

- III.  $\$9,288 + (\$54,696 * .22)$

IV.  $\$9,288 + \$12,033 = \$21,321.12$

Capital Gains Income	Joint Ownership	Current Yield
Haley C&I Fund	\$69,000	3.20% (\$69,000 * .032 = \$2208)
Konza Fund	\$43,000	1.75% (\$43,000 * .0175 = \$753)
Ruth Fund	\$13,000	4.00% (\$13,000 * .04 = \$520)
Sagebrush Fund	\$8,000	0.50% (\$8,000 * .005 = \$40)

**Total Investment Income** = \$2208 + \$753 + \$520 + 40 = **\$3521**

**Total Tax Obligation for Earned & Investment Income:** = \$25,776 + \$3521 = **\$29,297**

#### Income not Subject to Tax

#### Capital Gains Income

Miscellaneous EE bonds	\$25,000	3.5% Deferred
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Retirement Assets	Market Value	Rate of Return
Tyler's 401(k)	\$69,000	8.75%
Tyler's 401(k)	\$134,000	4.10%
Tyler's traditional IRA	\$52,000	3.50%
Mia's 401(k)	\$15,250	14.00%

Mia's Rollover IRA	\$32,500	4.80%
Mia's Traditional IRA CD	\$52,000	3.50%
Conservative Annuity	\$125,000	5.00%

### Suggested Tax Strategy

- Increase 401(k) deductions for Tyler and Mia closer to their monthly expenses. Currently, \$61,295.91 of income is subject to 25% taxation. If we can redirect this income into their retirement plans, that will reduce the additional 10% taxes they have to pay on it and provide them money that can generate more money for retirement.

## Insurance

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### Life Insurance Analysis

In the event of a spouse's passing, adequate household income may be available to maintain the family's standard of living. To plan for this possibility, we will need to evaluate the existing life insurance coverage and we will need to identify existing household expenses and compare them to future ones. In addition to providing enough income we'll need to cover expenses at the time of death like medical bills and funeral expenses,

To deduce the amount of life insurance needed, we have used the income multiplier approach. The income approach calculates the current need by taking the current income and multiplying it by an appropriate multiplier to provide an appropriate amount. To give you an idea of A multiplier around seven may be sufficient for a person with very low expenses, final expenses and few to no dependents. In the case where expenses are higher and there are more dependents and final expenses we would want to use a multiplier of 10.

### Current Planning Assumptions

- Client's Life Span 95 years old
- Spouse or other dependents life spans 95 years old

### Lifestyle Characteristics

- You both don't use tobacco, alcohol or drugs
- No reckless driving convictions
- No DUI, DWI
- No thrill-seeking habits

### Occupation

- Jobs are not hazardous or risky

### Medical condition or history

- Together, you both have a pretty solid family health history.
- Both are age 42
- Both have a healthy height and weight

### Current Insurance Planning Efforts

- Amount of current coverage is:
  - Tyler's whole life insurance =  $\$8,750 + \$100,000 = \$108,750$
  - Mia's whole life insurance =  $\$8,350 + \$100,000 = \$108,350$
  - Tyler's company life insurance plan =  $\$68,466.58(1X \text{ Salary})$
  - Mia's company life insurance plan =  $\$32,496 * 4 = \$129,984$
  - Total coverage in the case both of you passed away =  $\$415,550.58$
- On Tyler's life insurance Mia is the beneficiary and on Mia's life insurance, Tyler is the beneficiary
- I think they are both adequately covered.
- I checked other life insurance plans and they are charging more than \$172 a month for whole life insurance. With the company paid life insurance I don't think that we need to make any changes here outside of making sure Becky is a beneficiary in the case that both of you pass away.

The whole permanent life insurance is a cash value plan that that guarantees a return and has fixed payments throughout the plan. This life insurance plan gives you some flexibility in that you can take out loans against the policy if you need to. Also, it's important to start the whole life insurance earlier than later to avoid higher premiums. Insurance companies use mortality tables to identify how much they should charge their customers.

### Income multiplier approach

- Current Need = Insured's Current Gross Income x Chosen Multiplier (1-15 is a typical multiplier)
  - **(Income)**  $\$100,963 \times 4 = \$403,852$ 
    - **This amount is already covered by existing coverage**

Another way to identify the minimum life insurance you need is to take your expenses and then subtract your assets.



Expenses = \$146,228.01

Assets = \$28,500

Life Insurance Need (Long-Term Expenses – Assets) = \$146,228.01 - \$28,500 = \$117,728.01

Based on this analysis I would suggest that you don't need to change your life insurance coverage.

There is a current whole-life insurance policy and Group term policy that exists do not meet the current needs.

### Needs Based Analysis Approach

Tyler & Mia	Final expenses for medical bills and funeral expenses	Amount
Tyler & Mia	Final illness costs	\$1,500
Tyler & Mia	Funeral costs	\$9000
Tyler & Mia	<b>Estate settlement expenses, including federal and state estate taxes and other settlement expenses.</b>	
Tyler & Mia	Estate Administrative costs	\$13,500
Tyler & Mia	Mortgage Payoff	\$130,332

Tyler & Mia	<b>Debt Reduction – Credit Card and other expenses</b>	\$20,000
Tyler & Mia	<b>Transitional expenses - Spousal Adjustment period</b>	\$25,000
Tyler & Mia	<b>Special needs funding (Education)</b>	\$40,000(\$10,000 x 4 years)
Tyler & Mia	<b>Household expenses to maintain or readjust standard of living goals for the survivor</b>	\$115,000
Tyler & Mia	<b>Funding to supplement the survivor's needs from age sixty to full retirement age</b>	
Mia	In the Event of Mia's passing	\$0
Tyler	In the Event of Tyler's passing.	\$16,765 x 7yrs = \$117,355
Tyler & Mia	<b>Funding to supplement or provide for the survivor's retirement</b>	\$100,000
Mia	Total Needs if Mia passes	\$457,429
Tyler	Total Needs if Tyler passes	\$574,784

The Payoff remaining, generated from the Mortgage Amortization Schedule at this time is \$130,332 (After 124 payments).

The Needs Based Analysis approach provides a more realistic and accurate amount than the Income Multiplier approach.

### Life Insurance Pros & Cons

- Term life insurance policies are great if you're looking to reduce premiums and it should cover final expenses, but it doesn't accumulate to cash value. If the term selected doesn't cover the duration of your life, you would have to try to sign up later for term life insurance, which could result in a higher premium or you are denied coverage.
- Universal life insurance policies provide more flexibility than a term life policy because it generates cash that allows you to take a break from making your premium payments and allows you to take tax free loans against the cash in the policy. A disadvantage of this is that the premiums are higher than a term life policy.
- Variable life insurance policies are similar to a universal insurance policy but they allow you to invest the cash portion into riskier investments that could produce higher or lower returns.

In analyzing the survivor's goals, needs and their risk assessment, we found that the current life insurance policies that they have fits your need. This falls in line with your goals to not use interest or dividends in your calculation for health insurance. Your lifestyle, occupation, medical condition, and ability to obtain adequate coverage.

### Health Insurance planning

Health insurance is currently being provided by Peacock & Peacock. This is through Tyler's employer and currently Tyler pays \$300 a month. This health care is adequate for your family but you could see benefit by contributing to a flexible spending account. Currently your costs are:

- Annual deductible is \$450
- Doctor's visit costs \$20 per appt
- Specialists visits are \$40
- Emergency Treatment \$100 copayment
- Generic medication \$10
- Name Brand medication \$25

Discretionary income is being consumed by dental and eye care expenses, which recently have averaged \$50 a month, or \$600 annually for your family. Presently, Tyler's employer offers a flexible spending account for health costs. To offset some of the expenses of health care we advise that you contribute \$600 annually to this account. I know there were some concerns about losing the contributions to this account but any losses can be offset by the tax savings of the plan. The contributions to an FSA account are pretax and the distributions aren't taxed when using them for qualified health care expenses.

### Disability Insurance planning

We reviewed your current coverage and you both have disability insurance that your employer offers. Mia has insurance that will cover her disability for up to 90 days at 100% salary. Tyler has disability insurance that covers his salary at 100% for the first 90 days, and after that he has another plan that covers 60% of his salary until the age of 65. You both elected to pay for a long-term disability plan at \$25 a month to cover Mia. 70% of her salary is covered from 90 days to the age of 65.

If both of you were to become disabled, your disability benefit (Excluding Bonus) after 90 days would be

Tyler's Salary = \$68,466.58 \* .60 = \$41,080

Mia's Salary = \$32,496 \* .70 = \$22,747.20

Total = \$63,827.14 annually or \$5319 monthly

## Long-term care insurance planning

### Assumptions

- Nursing home expenses in the Bedos area costs \$49,000 annually
- Average age entering nursing home living is 83
- Average stay is 1 ½ years
- Long-term care expenses have been increasing by 5% annually
- Assets for use in funding long-term care increase by 5.5% after-tax, annually.

### An average long-term care plan

According to Advanced Long-Term Care's website (<http://www.advancedltc.com>), today's 65 year old male would live to be 84.3 years old, and today's 65 year old female would live to be 86.6. Out of the people over 65 years old, 70% of them will need long-term care at some stage in their life. The average nursing home rate has increased 4.35% since 2013. Long-term care costs average about \$3,500 a month. Although older people are more likely to need long-term care, we all know that at any age we could end up needing long-term care.

## Property/Casualty Analysis and Recommendations

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### Analyzing the Current Situation

There is currently a homeowner's insurance and a personal automobile policy in place. The homeowner's insurance and Personal Automobile Insurance details are listed below.

### Home Owners insurance

- An HO-3 policy with a \$100,000 liability limit
- Insured for \$225,000
- No inflation endorsement
- \$500 deductible
- \$700 per year premium
- \$500,000 umbrella insurance policy

### Automobile Insurance

Presently, we have a split coverage of 100/300/50 provided by Missouri Valley Insurance Corporation. The current rating for this insurance is Best Rating: A, on both vehicles. To break it down, this means that we have:

- \$100,000 bodily injury insurance
- \$300,000 total bodily injury liability insurance per accident
- \$50,000 property damage liability per accident

The deductibles are \$500 for comprehensive coverage and \$500 for collision coverage. This insurance includes medical payments, car rental coverage, and towing.

### Family's Lifestyle Characteristics

- Non-tobacco, alcohol or drug users
- No history of reckless driving convictions
- No DUI or DWI
- No thrill-seeking automobile habits

### Personal and Real Assets

Home	Joint	\$250,000
Furnishings	Joint	\$45,000
Four-door Sedan (3 years old)	Joint	\$20,000
Minivan (5 years old)	Joint	\$15,500
Yard Equipment	Joint	\$8,000
Jewelry and Collectibles	Joint	\$10,000
Phil Mickelson-signed - Calloway Driver golf club	Joint	\$5,000
Golf Clubs/other sporting equipment	Joint	\$2,500
Golf artwork	Joint	\$5,000
Aluminum Boat	Joint	\$5,800

*Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 46.*

Total (Excluding Mortgage & Vehicles) = **\$81,300**

### Managing Risk Exposures

Our financial plan assumes a conservative risk approach. Due to this, our risk tolerance is low, so we want to reduce any potential losses in assets or future income by providing adequate automobile and homeowner's coverage.

### Calculating the 80 percent rule

It is estimated that two out of every 3 homes in the United States are underinsured. Due to this, we have used the 80 percent rule to make sure we have enough coverage for full repair or replacement. This rule applies mostly to partial losses.

The home value (replacement cost) is \$250,000

1.  $\$225,000 / .80 * \text{replacement cost}$
2.  $\$225,000 / .80 * \$250,000 = 1.125$
3. The replacement cost is equal to or greater than 1. So the replacement cost is adequate.

### An Example of Coverage and the Coinsurance Result at \$250,000

Insurance Coverage	Coverage to Property Ratio	Total loss Payment	Coinsurance Percentage	Insured Coinsurance Percentage	Insured Coinsurance Penalty



\$250,000	100%	\$250,000	0%	\$50,000	0%
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Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 384.

### Examining the Property's location and the Minimum auto insurance requirements

In the state of Missouri, the split-limit liability minimum is 25/50/10. However, this liability coverage is too low for most families in the state of Missouri, your family included.

The property's location is not in a flood zone or in a location where earthquakes occur. Based on your credit report, you have a good insurance score.

### The Average Cost of Homeowners Insurance Across the United States

(According to ValuePenguin.com)

35	Missouri	\$100	\$1,199	11%
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### The Largest Homeowner Insurance Companies

(According to ValuePenguin.com)

Insurance Company	Premiums Written (\$ thousands)	% of Market	Consumer Complaint Ratio
State Farm Group	\$17,556,871	18.6%	0.34
Allstate Corp.	\$7,957,403	8.4%	0.79
Liberty Mutual	\$6,471,114	6.9%	0.62
USAA Insurance Group	\$5,703,741	6.1%	0.45
Farmers Insurance Group	\$5,617,990	6.0%	0.53
Travelers Group	\$3,547,478	3.8%	0.50
Nationwide Corp.	\$3,290,890	3.5%	0.33
American Family Insurance Group	\$3,045,589	3.2%	0.76
Chubb Ltd.	\$2,776,827	2.9%	0.09
Erie Insurance Group	\$1,596,490	1.7%	0.44

Consumer complaint ratios are from the National Association of Insurance Commissioners. Insurance groups have a variety of subsidiary companies and complaint ratios were drawn from the subsidiary with the most homeowners premiums written.

### Current Property and Liability needs

- Liability exposures
- Homeowners insurance compared to industry standards
- Homeowners insurance coverage compared to liability exposure
- Need for specific policy endorsements
- The split-limit coverage limits on their personal automobile insurance policies
- Need for Part D coverage for damage to your car automobile insurance
- Need for umbrella, or excess liability, policy

## HO (Home Owners Insurance)

Your HO (Homeowners insurance) provides cost-effective and adequate coverage for your home. With your currently HO insurance, you are not at risk currently of having to pay a coinsurance penalty if you make a claim. To make sure we have enough coverage in the future, we are suggesting that we add an additional inflation endorsement to your policy. This will adjust your coverage to protect the inflation of your home in the future. Due to the fact that umbrella insurance policies are so inexpensive, we are suggesting that you increase your umbrella insurance policy to \$1 million, and increasing the deductible to offset the increase. We recommend that all property and values be documented in the case of a loss. This falls in line with our risk tolerance level. We suggest you make these changes at your earliest convenience.

## PAP (Personal Automobile Policy)

Auto coverage is relatively inexpensive and will also provide peace of mind. Currently, there is 100/300/50 split-coverage on both vehicles but we are recommending that we increase the limit to a combined single limit coverage policy of 100/300/100. This is due to the fact that liability claims can be high. Establishing this combined single limit coverage policy will cover \$500,000 across bodily injury and property damage. This insurance will still include medical payments, car rental coverage, and towing. We suggest you make these changes at your earliest convenience.

## Boat Insurance

Car insurance will cover physical damage to your boat trailer, but the coverage is limited. Boat insurance is similar to car insurance in that the basis of boat insurance covers:

- Bodily Injury Liability
  - Protection from being sued, or covers other medical bills in case of an accident.
- Property Damage Liability
  - Protection if you damage someone's property
- Physical Damage

- This protection covers damage to your vehicle

In Missouri you're not required to have boat insurance. Although, I recommend that you purchase liability insurance to protect from being sued for medical and property damages you may cause. The boat is worth \$5,800 and is an older model, so due to the lower value of the boat, only carrying liability insurance will lower the premium.

### Recommendations

To reduce premiums and overall expense, we recommend you bundle your auto, home and boat insurance. To help to offset additional expenses we suggest to increase HO-3 and PAP deductibles. The boat insurance will be reduced by only carrying liability insurance and taking safety courses to lower the cost. This savings will help us to increase the coverage of your auto insurance. On average boat insurance only adds a few hundred dollars annually.

## Non-Retirement Goals and Investments

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### Analyzing Non-Retirement Needs

Our goal is to establish a plan that will help you establish and maintain a higher-level of financial comfort. Mia has expressed the desire to create a small business to sell art supplies and collectibles, in a retail outlet. Mia would like to add on to the house as well and create an addition that she could occupy with her beautiful art.

### Risk Tolerance

Based on the questionnaire that was initially filled out, you have fallen into the moderately conservative category.

### Goal Cost

### Expected Rates of Return

	Expected Before-tax Total Rate of Return	Estimated Target After-tax Total Rate of Return**	Beta (Indexed to S&P 500)	Standard Deviation
Conservative	5.25%	3.7%	<0.40	<7.0
Moderately conservative	7.75	5.4%	<0.80	<9.0
Moderately aggressive	10.00%	7.0%	0.80 < 1.00	<13.0

Aggressive	12.14%	8.5%	>1.00	>13.0
*Note that these returns include capital appreciation, dividends, and interest received				
**Assumes a combined federal and state tax rate of 30 percent				

Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 53.

## Financial Goals

### Future Market Expectations and Conditions

The following rate is based on a moderately conservative approach to investing. 7.25 percent is the market average at this risk level. Investments may be higher or lower during short time periods but historically the average has been 7.25 percent.

- **Becky’s Education**
  - Moderately conservative before-Tax Rate of Return = 7.75
  - Beta <0.80
  - Standard Deviation <9.0
  
- **Establish an Art Supply Business**
  - Moderately conservative before-Tax Rate of Return = 7.75
  - Beta <0.80
  - Standard Deviation <9.0
  
- **Home Addition**
  - Moderately conservative before-Tax Rate of Return = 7.75
  - Beta <0.80
  - Standard Deviation <9.0

**Knowledge and Experience**

Based on your past investments, we know you have knowledge and experience with investment portfolios. Moderately aggressive portfolios aim at preserving most of the portfolio but taking a higher amount of risk to offset inflation erosion. Typically, these portfolios include a larger level of dividends or coupon payments.

**Risk Tolerance and Time Horizons Chart**

Time Frame	High Risk Tolerance	Moderately Risk Tolerance	Low Risk Tolerance
10+ years	Aggressive	Moderately Aggressive	Moderate

7 to 10 years	Moderately Aggressive	Moderate	Moderate
3 to 7 years	Moderate	Moderate	Moderately Conservative
1 to 3 years	Moderately Conservative	Moderately Conservative	Conservative
Less than 1 year	Conservative	Conservative	Conservative

Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 427.

### Modifying risk tolerance based on Time Frame

- Becky's Education
  - This goal has a time frame of 13 years
  - We will need to save \$80,000 to meet this goal
  - We will stay moderately conservative with this goal and plan to see a return of 7.75%
  
- Establish a small art supply business
  - This goal has a time frame of twenty years
  - We will need to save \$80,000 to meet this goal
  - We will stay moderately conservative with this goal and plan to see a return of 7.75%
  
- Home Addition
  - This goal has a time frame of twenty years
  - We will need to save \$20,000 to meet this goal
  - We will stay moderately conservative with this goal and plan to see a return of 7.75%

### Financial Goal Cost



### Financial Capacity to withstand risk

- We have an emergency fund
- We have adequate insurance in place and funded
- We have stable household income
- Debt is low
- Combined, we have investment and savings to withstand the risk

### Current savings

Description	Owner	Market Value	Current Yield
Savings account	Joint	\$10,000	3%
Checking account	Joint	\$3,500	0%
Money market account	Joint	\$10,000	3%
Checking account II (For art gallery/collection)	Joint	\$5,000	0%

Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 46.

### Current Investment funds

Description	Owner	Market Value	Current Yield
Miscellaneous EE Bonds	Joint	\$25,000	3.5% Deferred
Haley G&I	Joint	\$69,000	3.2%

Konza Fund	Joint	\$43,000	1.75%
Ruth Fund	Joint	\$13,000	4%
Sagebrush Fund	Joint	\$8,000	0.5%

Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 47.

## Education Planning

Only 56 percent of parents in the United States are saving for their children's tuition. Out of the tuition saved on average, only \$18,135 has been saved in assets.

After analyzing your investments and savings we have found that we don't have any assets allocated to Becky's education. We reviewed the 529 plan and provided some information below for your education but ultimately we decided against saving for Becky's education using a 529 plan.

## Educational Terms

- Inflation: An increase in the prices of goods and a decrease in purchasing power.
- 529 plan: A tax-advantaged investment plan is a method used to save for a beneficiary's college tuition.
- Lifetime Learning Tax Credit (LLTC): A tax credit used for tuition expenses

## Deductibility of State 529 Plan Contributions

The following table shows the limits, if any, on state income tax deductions for section 529 plan contributions. If there is a limit on the amount of the deduction, many states allow carry forward of excess contributions to future income tax returns.

State	529 Deduction
Missouri	\$8,000 single/\$16,000 joint, above the line exclusion from income

*Note.* Reprinted from *State, 529 Deduction:*, by FinAid, retrieved from <http://www.finaid.org/savings/state529deductions.phtml>

### Advantages and Disadvantages of a 529 plan

- **Advantages**
  - You can contribute a significant amount to the 529 plan but we're limited to contributing \$14,000 annually. Amounts over \$14,000 annually can push us over the gift tax limit.
  - Investments grow tax free.
  - Withdrawals from the 529 plan for college tuition are free from federal income tax.
  - Funds from the 529 plan can be used at any accredited college
  - There is no age or income limitations
  - You can change your 529 investment options twice a year
- **Disadvantages**
  - The beneficiary could decide to not go to college
  - The beneficiary could attend a college with lower tuition, and not need the total amount invested.
  - There is a 10 percent penalty for the withdrawal of nonqualified expenses.
  - Most 529 savings plans charge a annual percentage fee (Typically between 0.69% and 1.17%)

Although the 529 plan benefits offered tax advantages for both Federal and State, we're concerned that having a 529 plan could affect how much financial aid Becky would be eligible for. In addition, if Becky were to decide to not use the funds for college she would be subjected to a 10% penalty fee for using the funds in a different manner. Management fees of those 529 plans are a concern and can erode our return. Having control of our money is key to financial success. Having a 529 plan takes away some of that control.

**Tuition Funding and Recommendation**

We have decided to invest in some of your existing funds. The three funds we chose were the Clock Fund, the Haley Fund, and the Konza Fund. The funds average return is 7.75%. Tuition & inflation costs are increasing by 7% percent annually. We think that distributing the funds across these three investments will yield a fair return and fall in line with our moderately conservative risk level. The current cost to fund Becky’s tuition is \$10,000 per semester or \$20,000 annually, for 4 years. In today’s dollars we would need \$80,000 to fully fund her education. By the time Becky’s 18 we’ll need to have \$192,787.60, due to tuition inflation. To meet this saving’s goal, we’ll need to save \$1,183.51 monthly for this goal, as you can see in the excel spreadsheet.

**Time Value of Money Calculation for Becky’s Education (Also available in the Appendix)**

Tuition Inflation	7.00%		Investment																
	Becky's Age		Average Interest Rate	7.75															
Today's Tuition	5	\$80,000.00																	
	6	\$85,600.00																	
	7	\$91,592.00																	
	8	\$98,003.44																	
	9	\$104,863.68																	
	10	\$112,204.14																	
	11	\$120,058.43																	
	12	\$128,462.52	Becky's Education Goal																
	13	\$137,454.89	Current Age	5															
	14	\$147,076.74	College Age	18															
	15	\$157,372.11	Interest Rate	7.75%															
	16	\$168,388.16	Present Value	\$0.00															
	17	\$180,175.33	Monthly Payment Needed	(\$719.75)															
FV	18	\$192,787.60																	

**Time Value of Money Calculation for Art Supply Business (Also available in the Appendix)**

**ART Supply Business Funding and Recommendation**

Like our tuition funding we have decided to invest in some of your existing funds. The three funds are the same. The Clock Fund, Haley Fund, and the Konza Fund. The funds average return is 7.75%. The current cost to fund the ART Supply Business in today’s dollars is \$80,000. In 20 years, we’ll need \$140,280.48, due to the 3% annual inflation rate. To meet this goal, we will need to invest \$245.65 a month.

Inflation	3.00%		Investment	
			Average Interest Rate	7.75
Today's Tuition	1	\$80,000.00		
	2	\$82,400.00		
	3	\$84,872.00		
	4	\$87,418.16		
	5	\$90,040.70		
	6	\$92,741.93		
	7	\$95,524.18		
	8	\$98,389.91	Art Supply Business	
	9	\$101,341.61	Starting Year	2019
	10	\$104,381.85	Ending Year	2039
	11	\$107,513.31	Interest Rate	7.75%
	12	\$110,738.71	Present Value	\$0.00
	13	\$114,060.87	Monthly Payment Needed	(\$245.65)
	14	\$117,482.70		
	15	\$121,007.18		
	16	\$124,637.39		
	17	\$128,376.52		
	18	\$132,227.81		
	19	\$136,194.64		
FV	20	\$140,280.48		

**Time Value of Money Calculation for Home Addition (Also available in the Appendix)**

Inflation	3.00%		Investment	
			Average Interest Rate	7.75
Today's Tuition	1	\$20,000.00		
	2	\$20,600.00		
	3	\$21,218.00		
	4	\$21,854.54		
	5	\$22,510.18		
	6	\$23,185.48		
	7	\$23,881.05		
	8	\$24,597.48	Home Addition	

**Home Addition Funding and Recommendation**

As we stated with previous funding, we have decided to invest in some of your existing funds. The three funds are the same. The Clock Fund, Haley Fund, and the Konza Fund. The funds average return is 7.75%. The current cost to fund the home addition in today’s dollars is \$20,000. In 20 years, we’ll need \$35,070.12, due to the 3% annual inflation rate. To meet this goal, we will need to invest \$215.30 a month.

**How this affects taxes**

Although, we won't see the same tax benefits in our investment portfolio that we would potentially see with a 529 plan, our returns on investment won't be taxed as high as regular income. The tax rate for investments held over a year is only 15%.

### **Other ways to help fund Becky's education**

The Lifetime Learning Tax Credit (LLTC) allows college students to receive a credit on the first 20 percent of their \$10,000 tuition bill. Although this does not include room and board, it does provide the biggest benefit of this credit, which is \$2,000.

### **Financial Aid**

In the future, Becky could potentially qualify for grants that can reduce the financial obligation of her education. However, it is important that we start looking into financial aid early, like Becky's junior year in high school.

## Retirement Income Goals and Investment Analysis and Recommendations

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### **Retirement Goals**

One of the key retirement goals we talked about was to make sure that the both of you are financially prepared to retire at 62 years old, if possible. We discussed and agreed that you would need 85% of your current pretax income. Jointly, you have expressed the desire to leave as large of an estate as possible, for your daughter Becky. Additionally, Tyler has conveyed that he'd like to continue golfing and volunteer to help teach other aspiring golfers during his retirement. In her retirement, Mia stated that she would like to build a small addition to the house for her art work, and open a small art gallery in downtown Springfield.

## Current Retirement Analysis

### Retirement Assets

Description	Owner	Market Value	Rate of Return
Tyler's 401(k)	Tyler	\$69,000	8.75%
Consumer Fund		\$134,000	4.10%
Graham Fund			
Tyler's traditional IRA certificate of deposit	Tyler	\$52,000	3.5%
Mia's 401(k) Rocket Fund	Mia	\$15,250	14%
Mia's Rollover IRA Ruth Fund	Mia	\$32,500	4.8%
Mia's traditional IRA certificate of deposit	Mia	\$52,000	3.5%
Conservative annuity Potsdam Fixed Annuity	Mia	\$125,000	5%

Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 47.

### Current Retirement Plan Contributions

	Contribution Amount	Notes	Employer Contribution

Tyler's Investment Choices			
<b>Consumer Fund</b>	3% of base salary	401(k) plan deductions are not taken from bonus payments (the employer does not match bonus payments)	0%
<b>Graham Fund</b>			3% (100% match on the first 3%)
Mia's Investment choices			
<b>Rocket Fund</b>	10% of salary	For Future planning, 401(k) plan deductions are not taken from bonus payments (the employer does not match bonus payments)	3% (50% match on the first 6%)

Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 43.

Client	Client	Amount	Frequency	Total
<b>Salary</b>	Tyler	\$2,633.33	Biweekly	$\$2,633.33 \times 26 =$ <b>\$68,466.58</b>
<b>Salary</b>	Mia	\$2,708.00	Monthly	$\$2,708 \times 12 =$ <b>\$32,496</b>



<b>Salary</b>	Tyler	\$17,116.65	Semiannually	\$17,116.65 X 2 = <b>\$34,233.30</b>
<b>Total Income \$135,195.88</b>				

*Note. From "The Case Approach to Financial Planning. Bridging the Gap between Theory and Practice, Third Edition," by John E. Grable, 2016, p. 42.*

### Retirement Needs Analysis

Clients Current Ages = 42 years old

Retirement Age = 62 years old

I/Y(Interest Rate) = 3.25% (This is the conservative interest rate we agreed to use)

Retirement Income Goal = (Total Income \* 85%)

or 135,195.88 \* .85 = \$114,916.49 Annual need

Life Expectancy = 95 years old

## Time Value of Money Calculation

### Calculating the Retirement Need

$$N = (\text{Retirement years needed}) 33 \text{ years} * 12 = 396$$

$$I/Y = 3.25/12 = .2708$$

$$\text{PMT (Needed every month)} = \$114,916.49/12 = -\$9,576.37$$

$$\text{PV} = \mathbf{\$2,324,383.91}$$

### Calculating the Retirement Contribution Need

$$\text{FV} = \$2,324,383.91$$

$$N = (\text{Years to retirement}) 20 \text{ years} * 12 = 240$$

$$I/Y = 3.25/12 = .2708$$

$$\text{PMT Needed Monthly} = \mathbf{-\$6,888.90}$$

### Calculating Social Security & Retirement Needs



# Social Security

The Official Website of the U.S. Social Security Administration

## Retirement Estimator

### Your Retirement Benefit Estimate

The age that you start your benefits determines how much you receive each month.

We created estimates for you at three common retirement ages using your earnings information. You can also add your own custom estimates by changing your stop work age and future earnings.

If you start your benefits:	And you earn an average of:	Your benefit will be about:
At age 62	\$102,699 a year (from now until age 62)	<b>\$1,822 a month</b>
At age 62	\$32,496 a year (from now until age 58)	<b>\$1,144 a month</b>
At <u>full retirement</u> (age 67)	\$32,496 a year (from now until full retirement)	<b>\$1,625 a month</b>

Note. Reprinted from State, *Retirement Estimator*, by Social Security, retrieved from <https://secure.ssa.gov/>

The amount needed in retirement is \$9,576.37

\$9,576.37 – (Forecasted Social Security Benefits)

\$9,576.37 – (\$1,822 + \$1,144)

\$9,576.37 – \$2,966 = **\$6,610.37**

**\$6,610.37** is needed monthly in retirement

**Recalculating the Retirement Need (Considering SS Benefits)**

$$N = (\text{Retirement years needed}) 33 \text{ years} * 12 = 396$$

$$I/Y = 3.25/12 = .2708$$

$$\text{PMT (Needed every month)} = -\$6,610.37$$

$$\text{PV} = \$1,604,519.47 \text{ (Needed in retirement)}$$

**Recalculating the Retirement Need (Considering SS & Current Retirement Assets)**

$$(\$69,000 + \$134,000 + \$52,000 + \$15,250 + \$32,500 + \$52,000 + \$125,000) = \$479,750$$

or

$$\text{Total} = \$479,750$$

Listed on the next few pages, we expect the retirement income to generate a return of

$$2,591,765.03. \text{ This will make the total retirement account } \$2,591,765.03 + \$479,750 = \$3,071,515.03$$

**Retirement Need – Current Assets = Retirement Need**

$$\$1,604,519.47 - \$479,750 = \$1,124,769.47$$

The expected investment return of \$2,591,765.03, covers our retirement need.

**The Retirement Contribution Need**

The maximum contribution for a 401k plan is 19,000 in 2019 and for an IRA it's \$5,500 in 2019. You can put in as much as your employer will match, which is 3% for each of you, but we can increase the amount, depending on whether or not there is a tax benefit based on the tax bracket or other tax strategies.

### Asset Allocation

In the past the rule of thumb used to identify your investment allocation was to subtract your age from 100. And that would be the percent you would invest into stocks. However, as time has gone on people in our society are living longer and the new rule of thumb is to subtract your age from 120. In this case that would mean that we would invest 78% into stocks and 22% into bonds. We have to be a bit more aggressive to have enough retirement money, to cover your retirement. For your portfolio we will take the existing \$479,750 in retirement funds and allocate 22% of it into bonds at 3.5% and we'll take 78% and invest it in the Consumer Fund and the Rock fund, which have returns of 8.75% and 14% respectively.

### Retirement Allocation

#### Bond Investment

Bonds =  $\$479,750 \times .22(22\%) = \$105,545$  allocated to bonds in the retirement portfolio

The average return on bonds are 3.5%

\$105,545 at 3.5% annually

The bond fund return is \$106,780.09 over the next 20 years.

<b>Bond ROI</b>					
Average Interest Rate	3.5				
<b>Bond Return</b>					
Starting Year	2019				
Ending Year	2039				
Interest Rate	3.50%				
Present Value	\$105,545.00				
<b>Future Value</b>	\$212,325.09				
<b>Funds Generated</b>	\$106,780.09				

**Stock Investment**

Stocks/Index Funds = #479,750 \* .78(78%) = \$374,205 allocated to stocks in the retirement portfolio

The average return on the Consumer Fund is 8.75% annually

Half of the stock investment (\$187,102.5) is allocated to this Fund and the return over the next 20 years is \$882,783.34.

<b>Consumer Fund</b>		
Average Interest Rate	8.75	
<b>Consumer Fund ROI</b>		
Starting Year	2019	
Ending Year	2039	
Interest Rate	8.75%	
Present Value	\$187,102.50	
<b>Future Value</b>	\$1,069,885.84	
<b>Funds Generated</b>	\$882,783.34	

## Stock Investment

Stocks/Index Funds = #479,750 \* .78(78%) = \$374,205 allocated to stocks in the retirement portfolio

The average return on the Rocket Fund is 14% annually

Half of the stock investment (\$187,102.5) is allocated to this Fund and the return over the next 20 years is \$1,602,201.60.

<b>Rocket Fund ROI</b>		
Average Interest Rate		14
<b>Rocket Fund Return</b>		
Starting Year		2019
Ending Year		2039
Interest Rate		14.00%
Present Value		\$105,545.00
Future Value		\$1,707,746.60
<b>Funds Generated</b>		\$1,602,201.60

## Retirement Summary

1. The Bond fund return is \$106,780.09 over the next 20 years.
2. The Consumer fund return is \$882,783.34 over the next 20 years.
3. The Rocket fund return is \$1,602,201.60 over the next 20 years.

The total return on your existing retirement funds is **\$2,591,765.03**.

## Deterministic Withdrawal Illustration

### Recalculating

Age of Clients	Starting Balance	Monthly Distribution	Annual Distribution
62	3716534.5	6643.305419	79719.665
63	3636814.83	6803.87442	81646.493
64	3555168.34	6947.391468	83368.6976
65	3471799.64	7073.791775	84885.5013
66	3386914.14	7183.080412	86196.9649
67	3300717.18	7275.33078	87303.9694
68	3213413.21	7350.682715	88208.1926
69	3125205.02	7409.340226	88912.0827
70	3036292.93	7451.568907	89418.8269
71	2946874.11	7477.693045	89732.3165
72	2857141.79	7488.092441	89857.1093
73	2767284.68	7483.198991	89798.3879
74	2677486.29	7463.493041	89561.9165
75	2587924.38	7429.499564	89153.9948
76	2498770.38	7381.784169	88581.41
77	2410188.97	7320.949001	87851.388
78	2322337.58	7247.628542	86971.5425
79	2235366.04	7162.485356	85949.8243
80	2149416.22	7066.205812	84794.4697
81	2064621.75	6959.495805	83513.9497
82	1981107.8	6843.076517	82116.9182
83	1898990.88	6717.680235	80612.1628
84	1818378.72	6582.470003	79101.64
85	1719277.08	6431.656478	77541.8777
86	1623857.2	6265.660976	75974.9317
87	1532109.27	6084.356903	74496.2828
88	1444012.98	5887.563297	73114.7596
89	1359538.22	5675.043696	71824.5244
90	1278645.7	5447.512444	70614.5219
91	1188501.18	5205.903835	69484.846
92	1091638.33	4951.8414712144	68434.546
93	990661.786	4688.8544457908	67464.495
94	888128.292	4418.8474224115	66544.689
95	786437.602	4145.8224826589	65674.9191

Annual Starting Balance = Starting Balance – Annual Distribution

### Recommendations

- To help identify if opening an art gallery in downtown Springfield is right for you, you may want to:
  - Research if your idea is a great business decision
    - Does it solve a problem?
    - Would it be better to have as a hobby than as a business?



- Examine how much time would need to be committed
  - Would this goal take away from other retirement goals?
  - Would the drive to downtown Springfield and the time committed to the business be too much?
  - Would you start out running it yourself?
- Consult with other entrepreneurs
  - Reaching out to other entrepreneurs can help provide you with a better idea if this is something that you want to pursue
- Create and LLC to protect your assets
  - To initiate an LLC in Missouri you would need to file Articles of Organization with the Missouri Corp Division.
  - This can be filed online or by mail.
  - Currently it cost \$50 to file
  - You'll also need to obtain required business licenses and pay taxes on LLC income.
- To fund the \$80,000 to open the art gallery you would need to contribute \$245.65 every month. This fund is a moderately conservative investment for this objective.
- To fund the \$20,000 to build a small addition onto the house you will need to invest an additional \$61.41 a month into the S&P 500 Index Fund. This fund is a moderately conservative investment for this objective.
- The retirement income has been met through existing retirement plans, social security benefits, and retirement planning.

## Estate Planning Analysis and Recommendations

---

### Analysis of Current Estate Documents

Three years ago, you both created wills for Becky. Some of the concerns you mentioned were avoiding probate, making sure Becky has a named guardian, assigning all assets to each other in the case one of you passes, and

maintaining Becky's privacy during the process. Your current will has stated that in the event that both of you pass away, Barbara (Mia's sister) will be Becky's guardian. It is a general rule of thumb that your will should be reviewed every 5 years to make sure any changes have been addressed in it.

**A will kit was purchased to create the will but it doesn't include:**

- All of your assets
- Naming an executor
- Providing funeral instructions
- Addressing potential estate tax issues

**In conjunction to having a will, we need to include the following legal documents:**

1. A letter of last instruction to the spouse, detailing how the will is to be executed.
2. A codicil or an amendment to your current will
3. The living will that outlines end-of life wishes
4. A power of attorney for medical and financial wishes

**Other Important Documents**

- Household birth certificates
- Marriage certificates
- Brokerage account information
- Inventory of assets
- Car titles and Mortgage information
- Life insurance policy
- Health insurance information
- Long-term care information
- Bank account information
- Debt information
- Retirement Beneficiary documents

### Executor Duties

In the event that both of you pass away an executor needs to be named. An executor is someone that is named the administrator of your estate in the case of someone passing away. The executor is responsible for executing the deceased wishes for their estate. Many people think that having a will avoids probate but this is untrue. The will still has to be filed with the local probate court. The executor is responsible for:

- Obtaining a copy of the will and filing it with the probate court
- Deciding the type of probate necessary
- Contacting the decedent's credit card companies, banks and government agencies
- Establish a bank account to pay bills
- Submit estate assets to the court
- Manage property

### Missouri Probate and Estate Tax Laws

Probate is a legal procedure that happens when the decedent passes away. It doesn't matter if they have a valid will or not, they are still required to go through the process. In Missouri, if you pass away without a will then Missouri's probate law will indicate how the decedents assets are distributed.

### Estate tax issues

Regarding taxes, Missouri doesn't have a separate death or estate tax. It has been this way since 2005, and the IRS has also discontinued state-based death tax credits. Using the gift tax annual exclusion of \$28,000 per married couple (known as gift splitting) can reduce the gross estate. Although, creating an irrevocable trust for Becky can help avoid probate for your money and home. This can eliminate the need for property taxation at the time of your passing. An irrevocable trust makes the process easier at death to pass assets to Becky.

Mia owns a lot of artwork and intend to collect more. It will be important for the estate that she values the artwork correctly. To plan correctly it will be important to work with an appraiser who can accurately convert catalog values into market values. Assigning the art work to Becky will need to be completed. Another way to reduce estate taxes would be to give gifts to your university alumni fund, church, or the United Way. This can reduce your federal income taxes for your estate.

### Home Appreciation

This value of your home over the next 30 years will increase 4% annually. This is displayed below.

Year	Current Home Value	Adjusted value for 3% inflation	Becky's Age
2019	\$250,000	\$250,000	5
2020	\$260,000.00	\$252,500.00	6
2021	\$270,400.00	\$255,025.00	7
2022	\$281,216.00	\$257,575.25	8
2023	\$292,464.64	\$260,151.00	9
2024	\$304,163.23	\$262,752.51	10
2025	\$316,329.75	\$265,380.04	11
2026	\$328,982.94	\$268,033.84	12
2027	\$342,142.26	\$270,714.18	13
2028	\$355,827.95	\$273,421.32	14
2029	\$370,061.07	\$276,155.53	15
2030	\$384,863.51	\$278,917.09	16
2031	\$400,258.05	\$281,706.26	17
2032	\$416,268.38	\$284,523.32	18
2033	\$432,919.11	\$287,368.55	19
2034	\$450,235.88	\$290,242.24	20
2035	\$468,245.31	\$293,144.66	21
2036	\$486,975.12	\$296,076.11	22
2037	\$506,454.13	\$299,036.87	23
2038	\$526,712.29	\$302,027.24	24
2039	\$547,780.79	\$305,047.51	25
2040	\$569,692.02	\$308,097.99	26
2041	\$592,479.70	\$311,178.96	27
2042	\$616,178.89	\$314,290.75	28
2043	\$640,826.04	\$317,433.66	29
2044	\$666,459.08	\$320,608.00	30

### Funeral and Administrative Expenses

The funeral and administrative expenses are expected to grow at 4% annually. This is an estimate of expenses and the executor fees over the next 30 years.

Year	Funeral Expenses	Funeral Expenses + Executor fees	Becky's Age
2019	\$9,000	\$22,500	5
2020	\$9,360.00	\$22,860	6
2021	\$9,734.40	\$23,234	7
2022	\$10,123.78	\$23,624	8
2023	\$10,528.73	\$24,029	9
2024	\$10,949.88	\$24,450	10
2025	\$11,387.87	\$24,888	11
2026	\$11,843.39	\$25,343	12
2027	\$12,317.12	\$25,817	13
2028	\$12,809.81	\$26,310	14
2029	\$13,322.20	\$26,822	15
2030	\$13,855.09	\$27,355	16
2031	\$14,409.29	\$27,909	17
2032	\$14,985.66	\$28,486	18
2033	\$15,585.09	\$29,085	19
2034	\$16,208.49	\$29,708	20
2035	\$16,856.83	\$30,357	21
2036	\$17,531.10	\$31,031	22
2037	\$18,232.35	\$31,732	23
2038	\$18,961.64	\$32,462	24
2039	\$19,720.11	\$33,220	25
2040	\$20,508.91	\$34,009	26
2041	\$21,329.27	\$34,829	27
2042	\$22,182.44	\$35,682	28
2043	\$23,069.74	\$36,570	29
2044	\$23,992.53	\$37,493	30
2045	\$24,952.23	\$38,452	31
2046	\$25,950.32	\$39,450	32
2047	\$26,988.33	\$40,488	33
2048	\$28,067.86	\$41,568	34
2049	\$29,190.58	\$42,691	35

## Wealth Projections

In conjunction to the irrevocable trust, it is a good idea to establish property transfer by indicating designated and/or contingent beneficiaries for all assets. Below shows the projected estate value over the next 30 years.

<b>Transfer of Wealth</b>			
<b>Income Analysis</b>			
<b>Client</b>	<b>Client</b>	<b>Amount</b>	<b>Frequency</b>
Salary	Tyler	\$68,466.58	Annually
Salary	Mia	\$32,496.00	Annually
Salary	Tyler	\$34,233.30	Annually

## Investment/Savings returns over the next 30 years.

We are assuming a 5% return annually.



## Total Estate Worth

Over the next 30 years.

Tyler & Mia's age	Becky's Age	Year	Home Value	Retirement Savings	Non-Retirement Savings	Total Estate Worth
42	5	2019	\$250,000			
43	6	2020	\$252,500.00	\$10,905.80	\$17,640.00	\$281,045.80
44	7	2021	\$255,025.00	\$21,837.56	\$35,322.00	\$312,184.56
45	8	2022	\$257,575.25	\$33,315.91	\$53,888.10	\$344,779.26
46	9	2023	\$260,151.00	\$45,368.18	\$73,382.51	\$378,901.68
47	10	2024	\$262,752.51	\$58,023.06	\$93,851.63	\$414,627.20
48	11	2025	\$265,380.04	\$71,310.68	\$115,344.21	\$452,034.93
49	12	2026	\$268,033.84	\$85,262.69	\$137,911.42	\$491,207.95
50	13	2027	\$270,714.18	\$99,912.29	\$161,606.99	\$532,233.46
51	14	2028	\$273,421.32	\$115,294.38	\$186,487.34	\$575,203.04
52	15	2029	\$276,155.53	\$131,445.57	\$212,611.71	\$620,212.81
53	16	2030	\$278,917.09	\$148,404.32	\$240,042.30	\$667,363.71
54	17	2031	\$281,706.26	\$166,211.01	\$268,844.41	\$716,761.68
55	18	2032	\$284,523.32	\$184,908.03	\$299,086.63	\$768,517.99
56	19	2033	\$287,368.55	\$204,539.91	\$330,840.96	\$822,749.42
57	20	2034	\$290,242.24	\$225,153.38	\$364,183.01	\$879,578.63
58	21	2035	\$293,144.66	\$246,797.52	\$399,192.16	\$939,134.34
59	22	2036	\$296,076.11	\$269,523.87	\$435,951.77	\$1,001,551.74
60	23	2037	\$299,036.87	\$293,386.53	\$474,549.36	\$1,066,972.76
61	24	2038	\$302,027.24	\$318,442.33	\$515,076.83	\$1,135,546.39
62	25	2039	\$305,047.51	\$344,750.92	\$557,630.67	\$1,207,429.10
63	26	2040	\$308,097.99	\$372,374.94	\$602,312.20	\$1,282,785.12
64	27	2041	\$311,178.96	\$401,380.16	\$649,227.81	\$1,361,786.93
65	28	2042	\$314,290.75	\$431,835.64	\$698,489.20	\$1,444,615.59
66	29	2043	\$317,433.66	\$463,813.89	\$750,213.66	\$1,531,461.21
67	30	2044	\$320,608.00	\$497,391.06	\$804,524.34	\$1,622,523.40
68	31	2045	\$323,814.08	\$532,647.08	\$861,550.56	\$1,718,011.72
69	32	2046	\$327,052.22	\$569,665.91	\$921,428.09	\$1,818,146.22
70	33	2047	\$330,322.74	\$608,535.67	\$984,299.49	\$1,923,157.91
71	34	2048	\$333,625.97	\$649,348.93	\$1,050,314.47	\$2,033,289.37
72	35	2049	\$336,962.23	\$692,202.85	\$1,119,630.19	\$2,148,795.27

## Implementation

Taking recommendations and prioritizing them

## [Final Cash Flow, Net Worth Statement, and 2018 Tax Analysis](#)

### Appendix

#### **Mortgage Amortization Schedule**

(Double click the Box Below to display the Mortgage Amortization Schedule)



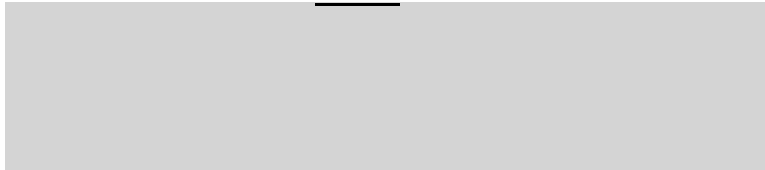
### Car Loan Payoff Schedule

(Double click the Box Below to display the Car Loan Payoff Schedule)

	<b>Amt Borrowed</b>	\$24,549			
	<b>Periods</b>	60			
	<b>Rate</b>	0.00325			
	<b>Payment</b>	\$451.00			
<b>Months</b>	<b>Beginning</b>	<b>Payment</b>	<b>Interest</b>	<b>Principal</b>	<b>Ending Balance</b>
1	\$24,549	\$451.00	\$79.78	\$371.22	\$24,177.78
2	\$24,178	\$451.00	\$78.58	\$372.42	\$23,805.36
3	\$23,805	\$451.00	\$77.37	\$373.63	\$23,431.73
4	\$23,432	\$451.00	\$76.15	\$374.85	\$23,056.88
5	\$23,057	\$451.00	\$74.93	\$376.07	\$22,680.82
6	\$22,681	\$451.00	\$73.71	\$377.29	\$22,303.53
7	\$22,304	\$451.00	\$72.49	\$378.51	\$21,925.02
8	\$21,925	\$451.00	\$71.26	\$379.74	\$21,545.27
9	\$21,545	\$451.00	\$70.02	\$380.98	\$21,164.29
10	\$21,164	\$451.00	\$68.78	\$382.22	\$20,782.08
11	\$20,782	\$451.00	\$67.54	\$383.46	\$20,398.62
12	\$20,399	\$451.00	\$66.30	\$384.70	\$20,013.91
13	\$20,014	\$451.00	\$65.05	\$385.95	\$19,627.96
14	\$19,628	\$451.00	\$63.79	\$387.21	\$19,240.75
15	\$19,241	\$451.00	\$62.53	\$388.47	\$18,852.28
16	\$18,852	\$451.00	\$61.27	\$389.73	\$18,462.55
17	\$18,463	\$451.00	\$60.00	\$391.00	\$18,071.55
18	\$18,072	\$451.00	\$58.73	\$392.27	\$17,679.29
19	\$17,679	\$451.00	\$57.46	\$393.54	\$17,285.74
20	\$17,286	\$451.00	\$56.18	\$394.82	\$16,890.92
21	\$16,891	\$451.00	\$54.90	\$396.10	\$16,494.82
22	\$16,495	\$451.00	\$53.61	\$397.39	\$16,097.43
23	\$16,097	\$451.00	\$52.32	\$398.68	\$15,698.74
24	\$15,699	\$451.00	\$51.02	\$399.98	\$15,298.76
25	\$15,299	\$451.00	\$49.72	\$401.28	\$14,897.48
26	\$14,897	\$451.00	\$48.42	\$402.58	\$14,494.90
27	\$14,495	\$451.00	\$47.11	\$403.89	\$14,091.01
28	\$14,091	\$451.00	\$45.80	\$405.20	\$13,685.80
29	\$13,686	\$451.00	\$44.48	\$406.52	\$13,279.28
30	\$13,279	\$451.00	\$43.16	\$407.84	\$12,871.44
31	\$12,871	\$451.00	\$41.83	\$409.17	\$12,462.27
32	\$12,462	\$451.00	\$40.50	\$410.50	\$12,051.77
33	\$12,052	\$451.00	\$39.17	\$411.83	\$11,639.94
34	\$11,640	\$451.00	\$37.83	\$413.17	\$11,226.77
35	\$11,227	\$451.00	\$36.49	\$414.51	\$10,812.26
36	\$10,812	\$451.00	\$35.14	\$415.86	\$10,396.40
37	\$10,396	\$451.00	\$33.79	\$417.21	\$9,979.19
38	\$9,979	\$451.00	\$32.43	\$418.57	\$9,560.62
39	\$9,561	\$451.00	\$31.07	\$419.93	\$9,140.69
40	\$9,141	\$451.00	\$29.71	\$421.29	\$8,719.40
41	\$8,719	\$451.00	\$28.34	\$422.66	\$8,296.74
42	\$8,297	\$451.00	\$26.96	\$424.04	\$7,872.70
43	\$7,873	\$451.00	\$25.59	\$425.41	\$7,447.29
44	\$7,447	\$451.00	\$24.20	\$426.80	\$7,020.49
45	\$7,020	\$451.00	\$22.82	\$428.18	\$6,592.31

### Proposed Mortgage Amortization Schedule

(Double click the Box Below to display the Car Loan Payoff Schedule)



### Becky’s Educational Investment

(Double click the Box Below to display the Loan Payoff Schedule)

<b>Tuition Inflation</b>	<b>7.00%</b>			<b>Investment</b>															
	<b>Becky's Age</b>			<b>Average Interest Rate</b>	<b>7.75</b>														
<b>Today's Tuition</b>	<b>5</b>	\$80,000.00																	
	<b>6</b>	\$85,600.00																	
	<b>7</b>	\$91,592.00																	
	<b>8</b>	\$98,003.44																	
	<b>9</b>	\$104,863.68																	
	<b>10</b>	\$112,204.14																	
	<b>11</b>	\$120,058.43																	
	<b>12</b>	\$128,462.52		<b>Becky's Education Goal</b>															
	<b>13</b>	\$137,454.89		Current Age	<b>5</b>														
	<b>14</b>	\$147,076.74		College Age	<b>18</b>														
	<b>15</b>	\$157,372.11		Interest Rate	<b>7.75%</b>														
	<b>16</b>	\$168,388.16		Present Value	<b>\$0.00</b>														
	<b>17</b>	\$180,175.33		<b>Monthly Payment Needed</b>	<b>(\$719.75)</b>														
<b>FV</b>	<b>18</b>	<b>\$192,787.60</b>																	

### Time Value of Money Calculation for Art Supply Business

(Double click the Box Below to display the Loan Payoff Schedule)

Inflation	3.00%			Investment														
				Average Interest Rate	7.75													
Today's Tuition	1	\$80,000.00																
	2	\$82,400.00																
	3	\$84,872.00																
	4	\$87,418.16																
	5	\$90,040.70																
	6	\$92,741.93																
	7	\$95,524.18																
	8	\$98,389.91																
	9	\$101,341.61		Art Supply Business														
	10	\$104,381.85		Starting Year	2019													
	11	\$107,513.31		Ending Year	2039													
	12	\$110,738.71		Interest Rate	7.75%													
	13	\$114,060.87		Present Value	\$0.00													
	14	\$117,482.70		Monthly Payment Needed	(\$245.65)													
	15	\$121,007.18																
	16	\$124,637.39																
	17	\$128,376.52																
	18	\$132,227.81																
	19	\$136,194.64																
FV	20	\$140,280.48																

**Time Value of Money Calculation for Home Addition (Also available in the Appendix)**

Inflation	3.00%			Investment														
				Average Interest Rate	7.75													
Today's Tuition	1	\$20,000.00																
	2	\$20,600.00																
	3	\$21,218.00																
	4	\$21,854.54																
	5	\$22,510.18																
	6	\$23,185.48																
	7	\$23,881.05																
	8	\$24,597.48		Home Addition														

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