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- If our firm is required or permitted by law or regulatory authorities with jurisdiction over the firm

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Narrow Path Financial Inc.
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This presentation was prepared by Don as part of an educational exercise, not for specific clients. Jim and Anne Dowler are not real people and their financial situation is fabricated. We ALWAYS hold our dealings with our clients in the strictest confidence.

Executive Financial Plan Summary

For Jim & Anne Dowler

Prepared by: Donald Dority, CPA/PFS/CFP®, APMA®

You have a good start on planning for your financial goals. The following summary identifies some of the opportunities, weaknesses and pitfalls that could affect your goals. Your strengths are also used in our recommendations. We will review broad topics like cash flow, risk/insurance planning, investments/portfolio, education, retirement, taxes and address those areas of your plan. You will see a recommendation(s) in each of these areas that if accepted in conjunction with working with other professionals like insurance agents or estate attorneys will help shore up your plan so that you will have peace of mind in knowing that your goals are realistic and secure. Planning requires a lot of assumptions and long-term forecasting. The world around us and your personal facts and circumstances are always changing, so this plan is not meant to be put on cruise control. Reaching your goals will require periodic course corrections and these course corrections will sometimes make things easier not harder, so with this in mind, even after the implementation of this plan we will be walking along side you in the years to come.

Cash flow

All your planning items have a direct or indirect impact on cash flow and it either limits what we can do or enables us to implement certain strategies and tactics in your plan. It is so important that we have meticulously tracked the cash flow impact of every recommendation we made so that you can see how it will impact your budget and to prove that we worked within your budget to accomplish your goals. In some cases we have to estimate the impact to your cash flow because there are so many interdependent moving pieces, but there should be no material differences. Your current savings rate is 18.8% and a good rule of thumb is 15-20%, so we are starting from a solid base. (Clients' savings ratio-Plan Development #5)

Issue 1: Emergency funds

While you have a good start on accumulating sufficient emergency reserves, your current amount would last 3.4 months without covering any additional out of pocket expenses for medical insurance in case medical expenses or an illness. This is in the event that both of you lost your jobs at the same time.

Recommendation: Increase emergency reserves this year to at least 4 months of reserves which would then include enough to pay for medical insurance which requires an additional $5000 deposited this year.

Move the funds from the taxable money market to the Colorado municipal money market which has a better after-tax return.

Additionally, any tax refunds (estimated to be about $500 after changing withholdings) or "found money" should be dedicated to this Goal, increasing it up to $33,000 over the next few years.

Advantages:

Increases your ability to handle any emergencies that come along.

Using the municipal money market is more efficient with a better after-tax return than your current money market.

As long as one of you is working, this would cover six months of unemployment.

Disadvantages:

Funds invested in safe liquid assets earn less than those that have higher risk

Alternative:

Use Roth IRA to begin accumulating more emergency reserves beyond the current $25,000 because you can withdraw your principle at any time without penalty and the funds are protected from creditors. In that case, we would not count earnings toward your emergency reserves but principle only.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Debt

Debt can be useful to help provide for a home, transportation, starting a business or other investments. Mortgage debt can be tax deductible and the value of many homes rise at a pace that is greater than inflation allowing for a fixed housing payment. Usually these interest rates are low enough to provide for a housing payment that would be similar or possibly even lower than renting. Using debt to purchase any items that depreciate in value should be avoided if possible. It is important to manage credit carefully so that you have access to competitive interest rates and low closing costs when you make use of debt. Overall your debt to income ratios are healthy with a nonmortgage debt (credit cards and auto loan) to income ratio of 11.7%, a mortgage (PITI) debt to income ratio of 12.8% and an overall ratio of 16.8%. While these ratios are "healthy" based on industry standards, they use an annual minimum payment on your credit cards that is very low and you would incur a very significant amount of interest expense on your consumer debt if you were to only make the minimum payments.

Issue 2: Credit card debt: Your credit card debt is creating a drain on your financial resources due to very high interest rates.

If I was not constrained by the text I would recommend the following:

Recommendation:

Use cash proceeds from refinanced mortgage to pay off credit cards immediately.

Advantages:

Substantial reduction in interest rate

Mortgage interest expense is tax deductible in most cases

Funds that had been going to pay off credit card can be reallocated

Disadvantages:

Final pay-off of debt takes longer than paying off credit cards now

Long term debt is going to pay for consumer items

Alternative:

Pay off credit cards with immediately available cash

<u>Due to restraints in text:</u>

Recommendation: Pay off credit card balances immediately

Advantages:

Substantial savings in interest expense

Funds that had been going to pay off credit cards can be reallocated to your goals

Improves debt to income ratios

Disadvantages:

Addressing your other goals will be delayed

You will still be paying very high rates of interest while paying off balances or will further reduce your available emergency cash in order to pay off balances

Alternative: Use cash out of your mortgage refinance to pay off balances (see advantages/disadvantages in previous section)

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Issue 3: Mortgage Restructure- Your current mortgage has a higher than market interest rate.

Chart showing potential mortgage options and amortization schedules for each option can be found on cash flow spreadsheet.

Recommendation: Refinance mortgage into a 15 year fixed rate of 4.25% and roll closing costs into the new loan.

Advantages: See disability section for recommendation on mortgage rider in the event of death/disability.

Locks you into a much lower interest rate than current loan or 20 year loan at rates that are near all-time lows.

<u>Pays off your mortgage 5 years earlier than anticipated, freeing up additional funds 5 years sooner and reducing your need for life insurance and disability insurance sooner.</u> (Without compounding the growth or discounting those funds for inflation, 5 years of mortgage payments (60 payments at $1,369 each) is equal to $82,140). Those additional funds could be allocated to retirement and/or the cabin purchase.

Improves your debt to income ratios by marginally reducing the mortgage payment

You end up paying roughly half of the mortgage interest than you would with either the current mortgage or the 20 year option.

More equity in your home would be available for future emergency uses.

Disadvantages: If you moved out of this house soon you would not recover your closing costs. Putting more money into your mortgage now prevents you from using those funds for other goals. Interest rates could drop even more which could be advantageous in an adjustable rate mortgage.

Alternative: Refinance mortgage to 20 year fixed at 5.68% which would save $1,616 / year but would extend the total life of you mortgage debt by a few months and have a much smaller effect on your interest rate

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Risk Management

Risk management involves recognizing hazards to you, your family and your livelihood and finding ways to mitigate those risks if feasible. Some of these risks include damage to or loss of property, liability, death, serious medical problems including long-term care needs and inability to generate income due to a disability. Risk management involves the use of insurance in a lot of cases. Basic

principles of good risk management are to share in risks you can bear (Use high deductibles) and transfer risk that would overwhelm you, your assets, your goals and your budget (buy an insurance product). It also involves risk reduction like putting a fence around a pool so that neighbors are less likely to drown in it or risk elimination like filling the swimming pool with dirt instead of just putting the fence up.

Issue 4: Homeowners Coverage: You have estimated the replacement cost of your personal property at $125k and you have coverage up to $150k which is good however you do not have an inventory of your personal property. It is estimated that it would cost $320k to rebuild your home in the event of a total loss. Your current coverage would fall short at $310k. Your current deductible is $500 which is fairly low and is reflected by a higher premium.

Recommendation (review and discuss this with your insurance agent): Take an inventory of personal property which would be necessary in the event of a total loss and attempting to replace all of that property and share this information with your agent because he may suggest an additional endorsement for rare or valuable items (firearms, fur, jewelry, electronics).

Increase your coverage by $10k to reach full replacement cost and add an inflation rider that will keep your policy on-pace with inflation. The increased coverage costs $35 for increasing replacement cost and $20 for the inflation rider for a total of $55 annually.

Increase your deductible from $500 to $3,000 which would save $625 annually.

Advantages: Your house and its contents would be fully insured in the event of a covered loss. You would have an inventory of your contents to ease the process of fully replacing them. You would be fully covered even as the cost of building materials increases in the future. By increasing your deductible, you would have some savings in your insurance by not trying to cover the small things that your regular budget could handle. Instead you would be covering the major things that could have a catastrophic impact.

Disadvantages: Your small losses would not be covered due to an increased deductible. Even big losses would require that you absorb the first $3k of expenses.

Alternative: Keep you deductible and insurance where they are which will cover smaller losses but not be adequate for complete replacement cost.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Issue 5: Automobile, boat and snowmobile coverage: If you were at fault in an auto accident, and 3 non-related people were badly injured, the maximum that your auto policy would cover is $300k (however you would have additional coverage from your umbrella policy which we will review). Uninsured motorist coverage is in the event that you or your vehicle occupants are injured by an uninsured motorist and the coverage you have in place would cover $50k/person up to

$100k/incident. If either or both of you were permanently disabled by an uninsured motorist, your maximum coverage would be $100k. In the event of permanent disability of a child, your expenses beyond the medical expenses could include many accommodations to modify housing, education/learning and would exceed the $50k. If you were to ignore planning in this area and sustain a loss, it could affect not only your goals for retirement but also your current lifestyle in potentially dramatic ways. If someone was injured on or by your boat or snowmobiles you would have no coverage whatsoever and a serious injury or death caused by one of them would wipe you out financially.

Recommendation (review and discuss this with your insurance agent): Increase your uninsured motorist coverage from 50/100 to 100/300 which will cost $40/yr.

Increase your deductible for your comprehensive and collision coverage from $500 to $1,500 which will save you $250/yr.

Add a policy to cover your boat and snowmobiles for a cost of $300/yr.

Advantages:

You will double your coverage if injured by an uninsured motorist for a relatively small cost increase.

You will save a significant amount on your comp/collision coverage while still being able to cover minor losses out of your regular budget.

You will cover one your most significant current risks by insuring the boat and snowmobiles.

Disadvantages:

Your loss in the event of serious injury by an uninsured motorist could still exceed the new limits. The coverage costs more.

In the event that you are responsible for a minor accident with property damage to your vehicle a significant portion of the expense to repair/restore your vehicle would have to be covered by you.

You may never use the coverages. You will have to spend time review these items with your insurance agent.

Alternative: Sell the boat and snowmobiles. Keep deductibles the same, increase them by something less than $1,000 or a higher amount to increase savings even more.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Umbrella Policy

Issue 6: Umbrella Coverage (review and discuss this with your insurance agent): Your umbrella requires certain minimum liability coverage limits on your auto and homeowners and you have enough coverage in place. Your umbrella does not have any increased coverage for uninsured motorists which is why we recommended increasing that coverage on your auto policies. Your umbrella policy appears to be more expensive than necessary and you can get better coverage with nominal premium increases. Your coverage does not meet industry standard recommendations of 5-15 times earnings or net worth.

Recommendation: Increase your coverage to $1M and move the policy to the agency with your HO coverage.

Advantages: You will double your coverage and only increase your premium cost by 20% (a $25/yr increase)

Disadvantages: It will take time, money and paperwork to get the coverage in place.

Alternative: Consider a policy that would increase coverage to $1.5M and would only cost an additional $75/yr.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Disability

Issue 7: Disability Planning (review and discuss this with your insurance agent)

In case of Jim's disability, you don't really know what would happen or how it would impact your lifestyle or retirement. You would like to know what steps you should take and what is realistic to expect in case of a disability so you aren't faced with the issues of increased expenses and decreased income as a result of a disability. The probability of either one of you being disabled is up to 23 times more likely than your house burning down however it is a lot more common for someone to protect their home rather than protect their ability to earn income. Right now, you both have reasonable short-term disability coverage from your employer. A disability lasting only a few months or even up to a year could be absorbed by your budget, savings and current benefits. It might be uncomfortable but not a huge, permanent blow to your lifestyle and goals. The greater risk comes from long-term disability as you well know based on what you've discussed regarding Anne's cousin. Since all of your current policies are either employer paid or pretax, any benefit from those policies would be taxable witch has a net reduction in benefit. Your current benefit is not indexed to inflation, so the longer the disability lasted, the larger your shortfall would become. If the disability was permanent the shortfall would be catastrophic. You have already come up with a contingency plan budget in the event of a disability, however there is nothing there to plan for college, retirement, or payment of life insurance or LTC insurance premiums. Your contingency budget reduces after tax savings to ZERO. Your contingency budget dramatically reduces retirement contributions. Those budget commitments are not sustainable if you wanted to come close to meeting any of your goals. All of the following shortfalls already take the contingency budget into account, so the projected shortfalls already include the items you agreed to. After 10 years when your shortfall reaches over $25k/year (today's dollars), reviewing your contingency budget, what would you cut? In 15 years your shortfall could be met by trimming almost 25% of your budget. If the seriousness of the problems is not clear enough, consider that at retirement, your income need is $221k, and you would have a shortfall of $126k. You would need to cut almost 60% of your expenses in order to meet this shortfall. How would you cut 60% out of your budget? In the event of Anne's disability, the impact would be minimal until it came time to fund Matt's college, purchase the cabin or retire with your current lifestyle goal. None of those goals would be achievable with Anne's disability however it would not be catastrophic as in Jim's case.

Recommendation: Purchase the mortgage rider for $400/yr.

Purchase the 5 year benefit with 365 day elimination period with both riders (COLA adjustment and non-cancellable) for Anne for $304/yr.

Purchase the "to age 65, 365 day elimination period with both riders" for Jim for $721/yr.

(The elimination period is the period of time between the onset of a disability and the time you are eligible for benefits. It is best thought of as a deductible period for your policy. A short elimination period, i.e. 90 days provides a benefit faster, but with a higher premium.)

Advantages: The mortgage rider is like purchasing a life insurance policy or disability policy and the value of which is very high over the next 8-10 years. As you get closer to the end of the mortgage it might make sense to cancel this rider if the cost is static while the loan balance goes down. It addresses your largest expenditure and your home which many of us see as security and/or a safety net.

Anne's policy is very affordable and allows you to come much closer to meeting some of your goals if she was disabled and comes close to covering the "average" length of disability of 82 months. You might be able to purchase the cabin, help pay for Matt's education and retire with your lifestyle goal intact.

Jim's policy is more affordable than the short elimination period policies. It would keep pace with inflation, does not require premium payments in the event of disability and would not create any shortfalls for 7 years (which is greater than the average length of a disability- 82 months).

Disadvantages: You may never use the mortgage rider and unless the cost goes down as the mortgage balance goes down its value diminishes over time.

The policies may never be used in which case the premiums could have gone to other goals like education for Matt, retirement, or the cabin purchase.

Jim's policy still does not cover all of your shortfalls if he was permanently disabled. You would need to make major changes to your goals and plans as he aged into his late 50's and early 60's.

Alternative: Don't use the mortgage rider and be prepared to cut more goals and expenses from your plan in the event of a permanent disability. Plan to sell your house and downsize immediately if confronted with a long-term disability. Make sure Matt understands that if he would like help with school the only way you might be able to help is with his room and board if he lives at home during college. Save even more now in order to "self-insure" to some extent. The spouse without a disability should be prepared to change careers to something that might earn more money. Do not plan on purchasing the family cabin.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Issue 8: Life insurance / Survivor planning (review and discuss this with your insurance agent)

You have indicated that you would like to cover the following cost in the event of a premature death. Short term needs $60k, Debt payoff $202k, Education and cabin funding and $80k annual pre-tax income during working years and $70k annual during retirement. The recommendations below represent your needs and you indicated you would rather be conservative and have a little more coverage than necessary. As time goes on your needs for life insurance will diminish as you accumulate savings and investments for your goals and as you pay down your debts. Since I'm recommending the death/disability rider for your mortgage, I have reduced your life insurance need by $170k. If Jim was to die now, you would have enough for short-term needs, but NONE of your other goals would be achievable. Anne would be forced to sell the house and dramatically downsize. Matt's education would not be provided for and the family cabin would not even be close to the radar, let alone retirement. If Anne was to die now the impact is not as dramatic, but there are major long-term consequences. How would you feel about being left behind and wondering if you should consider financial security as reason to remarry?

Recommendation: Keep your existing policies and purchase an additional $830k of life insurance for Jim and an additional $230k for Anne. The following represents the specific amounts of insurance and the time periods covered and the type of insurance.

Jim: $430k of temporary 10 year (term) life insurance at a cost of $292/year

$400k of temporary 20 year (term) life insurance at a cost of $436/year

Anne: $115k of temporary 10 year (term) life insurance at a cost of $69/year

$115k of temporary 20 year (term) life insurance at a cost of $104/year

Advantages: Your insurance coverage would be less costly than permanent (whole life) or universal coverage which have investment/savings components to them. We can stagger the products so that you are not significantly under/over insured for a long period of time. This keeps more money available for retirement, investment and savings so that you can achieve your goals more efficiently. These additional life insurance premiums are only about ½ of 1% of your budget. If Jim were to die today without additional life insurance, within a few years you would have to cut 60% of the expenses out of your budget.

Keep your current whole life policy which has a cash value and could be used in an emergency and has a savings component to it. It also has a nonforfeiture clause to it which allows the policy to stay in-force with modifications if paying the premium became an issue.

Disadvantages: 10 years is a long period of time and with those increments the coverage transition is not very smooth. Unlike whole life you have no cash value, savings or investment component to your life insurance. It just addresses death as opposed to multiple goals/features.

Alternative: Whole life products cost 16-19 x's the cost of the temporary (term) products but they have some valuable investments, savings and emergency features to them. Different time periods of term insurance could also meet your needs or even a "universal" life policy which can mix features of whole life and term life.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Health and LTC Insurance **(review and discuss this with your insurance agent)**

You are both in good health and there is no eminent indication that you will be in need of LTC insurance. If there were indications that you needed LTC or had health problems, it might be hard to qualify for LTC insurance. For your review below I have included a chart with average costs of LTC for your state.

Recommendation: Defer review of health insurance until next year's open enrollment and

LTC insurance for 5 years unless new information is available about your health or policy options.

Advantages: LTC solutions could become more predictable and universal between now and then.

Disadvantages: You could not get LTC insurance if you were to develop a serious cognitive impairment or other disability that requires assistance with regular daily activities like eating, toileting, dressing, bathing, getting to and from one part of the house to another (transferring), or continence (control of bowel/bladder)- once you need the coverage you can't get it. The regulatory landscape of LTC planning and the industry is changing rapidly, so you won't really know whether or not it would have been prudent to have secured a LTC policy until later. Costs could go up even more and availability could go down. Deferring LTC planning is not really a plan, and while Medicaid can be used to pay for LTC you must qualify and spend down a lot of your assets in order to qualify which would be catastrophic in the case of early memory impairment or some other type of early on-set cognitive disorder.

Alternative: Consider a policy with a long elimination period which would be more affordable and would not wipe you out financially. Consider a "partnership plan" which is a federally supported, state-operated initiative that allows individuals who purchase a qualified LTC insurance policy a protective measure on their assets that would typically need to be spent down prior to qualifying for Medicaid. Discuss with your family members how you might care for each other in the event a need arises.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

View the Average Long-Term Care Costs for States and Cities

View Average Long-Term Care Costs for:

CO Select State

State and Cities	Nursing Home	Assisted Living	Home Health Care Aide		
			4 hours/day	8 hours/day	12 hours/day
Colorado	$91,980	$39,750	$32,032	$64,064	$96,096
Aurora	$93,075	$45,270	$30,576	$61,152	$91,728
Boulder	$101,105	$53,184	$33,488	$66,976	$100,464
Colorado Springs	$89,238	$42,300	$32,760	$65,520	$98,280

This is intended for educational purposes and an illustration of our work products. It is not intended to be construed as financial advice for you and it is not maintained for changes in tax law, regulatory issues or other timely implications. Trying to apply these recommendations to yourself is not advisable.

Denver	$93,075	$45,270	$30,576	$61,152	$91,728
Fort Collins	$91,651	$42,120	$35,672	$71,344	$107,016
Grand Junction	$93,440	$37,500	$29,047	$58,094	$87,141
Greeley	$98,367	$38,400	$30,212	$60,424	$90,636
Lakewood	$93,075	$45,270	$30,576	$61,152	$91,728
Pueblo	$86,870	$31,014	$29,120	$58,240	$87,360
Rest Of State	$82,490	$33,282	$36,400	$72,800	$109,200

Average annual costs for Nursing Home, Assisted Living, and Home Health Care are from the Genworth 2014 Cost of Care Survey, conducted by CareScout®. Used with permission.

The selection and management of your investments and design of your portfolio is one of the most important aspects of your financial plan. We will be looking at portfolios that are diversified and tailored to your specific risk tolerance. Risk tolerance is a critical component in designing a portfolio that will meet your goals but that you'll be able to understand and stomach regardless of how tumultuous the markets might become. An objective of the portfolio selection is using risk efficiently. Investors should be compensated for risk and we can quantify the risk adjusted return of the portfolio using a Sharpe ratio. The Sharpe ratio will allow us to compare the investment returns of several portfolios in light of their expected risk and expected return in excess of a "risk-free" return. The risk free rate of return being used is 2.5% which approximates the return an investor would expect while accepting theoretically zero risk (the 3 month treasury return is often used as a benchmark for a risk free return). Our base inflation assumption is 2.5%. It is just a coincidence that our risk free rate of return and our inflation figures are the same.

	Current portfolio	Capital Preservation I	Balanced I	Balanced II
Rate of return	6.05%	5.05%	5.33%	5.71%
Real rate of return	3.55%	2.55%	2.83%	3.21%
Standard deviation	13.06%	7.64%	8.92%	10.59%
Sharpe ratio	0.2718	0.338	0.317	0.303

Tax consequences of portfolio selection

Capital Preservation II and Balanced I require same sales

Holdings	Amount to sell	% gain	taxable amount	tax rate	tax

LT Muni's	$67,444	$0.04	$2,444	29.63%	$724
small cap stocks	$16,227	25.87%	$4,198	19.63%	$824
Balanced II requires selling a smaller amount of small cap stocks					
LT Muni's	$67,444	3.62%	$2,444	29.63%	$724
small cap stocks	$11,379	25.87%	$2,944	19.63%	$578
Waiting until next year to sell the muni's would result in LT capital gain treatment instead of ST				19.63%	$480

Plan Development #15(calculate cost of selling annuity)

	value	gain	tax	penalty
Fixed Annuity (50%/50% int/long)	$19,524	$4,524	$1,340	$452

Recommendation: Keep the existing annuity

Advantages: Your investment continues to grow tax deferred and provides a flexible funding source for a future LTC policy. It would provide a steady stream on income once annuitized. You would not have to pay income taxes and tax penalties for liquidating it. Since your annuity is past the surrender period, you would not have to worry about surrender charges (would only affect you if you did a 1035 exchange into a variable annuity contract). Would not have a dramatic impact (shift) in asset allocation since we can offset it with less intermediate bonds elsewhere and it won't represent a large percentage of your portfolio.

Disadvantages: Its rate of return is lower than our target and it contains LT bonds which are not part of our model portfolio.

Alternative: Cash in the annuity and pay the tax and penalty associated with it so that those assets can be used for portfolio rebalancing. It is already past its surrender period so there would not be any additional fees, but it would take just under two years just to earn back the income tax and penalty associated with its liquidation.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Issue 9: Portfolio restructuring

Recommendation: Implement the model portfolio "Balanced II". This portfolio is one of three model portfolios that are within an acceptable range of risk tolerances and expected investment returns. This portfolio is the most aggressive (highest level of risk) of your three options. Portfolios that are riskier than "Balanced II" reduce the probability that you will meet your goals because the additional volatility increases the chance that you will be withdrawing money when the market is down which would cause shortfalls after the down-turn. Implement this gradually so that they municipal bond holdings go from short-term capital gains treatment to long-term capital gains treatment. (This requires a holding period of greater than one year and it will save 10% in taxes). Tax associated with sale of Muni's would be $724 if sold with a holding period of less than one year while tax associated with long-term capital gains treatment would be $480. Once you have selected the portfolio we will document how we shift assets to fit that portfolio and draft an Investment Policy Statement (IPS) which will document the specific investments and accounts to implement the selected model portfolio. The IPS will clarify things like investment philosophy, fees, and acceptable tolerances for rebalancing, frequency of review, frequency of rebalancing, roles and responsibilities of various parties, investment objectives and expectations.

Advantages: Since the Balanced II portfolio is the most aggressive (higher expected rate of return) it also provides a better chance of reaching your goals and requires lower savings levels in order to reach higher confidence levels of reaching your goals. It has less risk and a better risk adjusted return than your current portfolio (see plan dev #13 for specific figures). It requires less shifting of taxable assets. (shifting of taxable assets converts your "paper" investment gains to taxable gains (creating more tax liability)- so out of your options, this one creates the least amount of additional tax liability. See plan dev #14 and cash flow spreadsheet for figures. It integrates both of your individual risk tolerances into one efficient portfolio.

Disadvantages: It is at the high end of your integrated (combination of both Matt's and Anne's risk profile questionnaires) acceptable risk tolerance which could cause you to second guess your portfolio when there is a lot of volatility in the market. Hasty decisions during those times of volatility could have major negative impacts to your portfolio and therefore your goals. Your downside is higher than the other two model portfolios.

You will need to rebalance some of your taxable assets which creates tax liability.

It will take some time and effort to implement the new portfolio. The Balanced II portfolio has a lower Sharpe ratio than both the Balanced I and Capital Preservation I portfolios which indicates that you are accepting incrementally more risk for that portfolio.

Alternative: Implement the Balanced I portfolio which is slightly less aggressive and has slightly less return than the balanced II.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Tax Planning

The table below is a partial list of tax items and their impact. You'll find a more complete and detailed accounting of the immediate tax impacts on our cash flow spreadsheet. In your tax planning one of the biggest opportunities that we have is related to your large balances of "after tax" savings. Specifically, the $67k in the joint municipal bonds, $27k in joint large cap growth and the $40k in the joint small cap account. The total of these funds is $134k. Our recommended net increase in savings changes from one year to the next and best reviewed on the cash flow tracking spreadsheet, we are recommending that you max out your contributions to your 401Ks by supplementing your take home pay with gradual liquidation of these accounts which effectively converts them from after tax assets to pretax assets. The effect of this increases cash flow by 29.63 cents on the dollar (generates tax savings of $7,620 each year with more savings available when contribution limits are raised). While we cannot be certain about your tax rates in retirement, we can aim for tax diversification with some assets in pretax categories-aka tax deferred (401Ks and traditional IRAs), some assets in tax free categories (Roth IRA) and some assets in after tax categories (regular investment brokerage account, savings, etc.) The rates get higher as your income gets higher, so it is very advantageous to be able to take only a certain amount out of a tax deferred account and then stop as soon as you get close to but not over a certain federal tax %. This is only possible if you have the flexibility to then pull your living expenses from tax free or after-tax accounts which is why we strive for the tax characteristic diversification. We provide a more in-depth discussion of these topics for you later in your executive summary.

In Colorado, at age 65 up to $24k of retirement income can be excluded from taxable income. (Which is a characteristic that allows for some permanent tax savings and avoidance in Colorado for what would normally be taxable income)

Tax concerns and opportunities

Item	Impact point	Likelihood of impact	Concerns or opportunities
Flexible spending plans	Immediate	100%	Opportunity to save 37% of $1,300 contribution to plan (37% includes Fed, CO, FICA)
Roth IRA's	Eligible now	Roth phase out begins at $183k so it is unlikely to impact you in the near future	Opportunity- Roth IRAs present a wonderful opportunity to diversify your tax structure and manipulate your marginal tax rate during retirement along with flexibility of usage of principal before retirement
Marginal tax rate increase or decrease	Rate goes from 25% to 28% at $151k which would not	Unlikely	n/a

	impact you unless your taxable income increased by 41%. You are well into the 25% bracket (income would have to go down by $31k to go back down to 15%)		
Coverdell ESA	Eligible now	Phase out begins at $190k so unlikely impact	Can be used as a tool in education planning (earnings in account are tax free on qualified distributions)
401k contributions	Eligible to contribute a lot more to your plans	100%	High impact opportunity creating savings of 29.63%
Child tax credit	Gradual phase out starting at $110k and ending at $130k gross income	Likely- if taxable income was reduced by $13k you would be eligible for some benefit	Opportunity for some tax credit
529 plan contribution	Immediate	Likely	4.63% Colorado State income tax benefit for contributions and growth and earnings are free of Federal and State income taxes for qualified distributions
Charitable giving	Immediate	Likely	Opportunity to use appreciated assets as gifts so that you don't have to pay tax and get full value deduction.

Issue 10: Flexible Spending Accounts

Recommendation: Begin contributing a minimum of $1,300 per year to your flex benefits plan.

Advantages: These contributions save you 37.28% (Federal, CO and FICA taxes). Rules have loosened recently to allow grace periods and "rollover" of funds so it is no longer a strict "use it or lose it" situation. Can be used for your co-pays, deductibles, transportation to and from medical appointments, orthodontia (braces), eye glasses/contacts, fertility treatments and some other medically necessary items that might not be covered by insurance at all.

Disadvantages: It is possible that you could have an incredibly healthy year in which you have very little need to spend in which case it is possible that you could lose some of your funds, but your spending would have to change dramatically since even if your spending dropped by 37% you would still break even.

Alternative: Contribute more than $1,300 especially if you're considering something like an elective surgery like Lasix or other procedures which might not be covered by insurance

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Issue 11: Gifting appreciated long-term stock

Recommendation: Give $4,000 in appreciated long-term stock to your qualified charity of choice instead of donating cash this year.

Advantages: If you donate stock you have owned for at least a year and it has gone up in value since you bought it, you can take a charitable deduction for the stock's fair market value. You will also avoid capital-gains taxes on the stock's increase in value. Instead of a typical tax deduction (25% Federal and 4.63% CO), you would also not have to pay the 15% long-term capital gains tax on the portion of the $4,000 that is gain. This saves an additional $203 and could be done again next year since we are phasing the new portfolio in gradually.

Disadvantages: This strategy will take a little more time and paperwork to implement rather than just writing a check.

Alternative: Give up the additional tax savings and continue contributing cash.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Education Planning:

Education Savings Plan	**Asset Ownership**	**Financial Aid Impact**	**Hope & Lifetime Learning Tax Credit Impact**
Coverdell ESA	Child	Increases EFC	Expenses paid with distribution cannot be claimed for tax credit
529 Savings Plan	Parent	Increases EFC	Expenses paid with distribution cannot be claimed for tax credit

This is intended for educational purposes and an illustration of our work products. It is not intended to be construed as financial advice for you and it is not maintained for changes in tax law, regulatory issues or other timely implications. Trying to apply these recommendations to yourself is not advisable.

- There are many different options in preparing for costs of higher education (or even elementary education when it comes to Coverdell ESAs). The two best options for you would be either a Coverdell ESA or a Colorado 529 plan. One of the advantages of the Coverdell over the 529 plan is that those funds can be used for private k-12 schooling. In both savings vehicles, the growth in the funds are free of tax in the form of qualified distributions (tuition, room, board, mandatory fees and books). In both cases you also have a wide variety of investment options available. The state income tax deductibility of your contributions to a Colorado 529 plan makes it more advantageous than the Coverdell. In addition, the Coverdell is limited to $2,000/year and has income limitations for contributions. One very important thing to keep in mind in the distant future is that there is no waiting period requirement between the time of contribution and its qualified distribution, so any shortfall that you are making up when Matt starts his education can effectively receive a 4.63% discount by funneling that money through the 529 plan (There is no indication that this rule will change in the near future, but this like many planning strategies could be changed by legislation or rule change at any time which is why it is so important that we meet and review you plan periodically.). In a 529 plan the account owner, typically the parent, controls the assets throughout the duration of the account holdings. And the account owner decides when and how the money is withdrawn.

- **Beneficiary Options:** If for some reason Matt decides not to attend college or receives scholarships, you can change the account's beneficiary to someone else in the family, even yourself. Or leave the funds in the account to be used at a later date since there are no time requirements to use the funds.

- If you make a withdrawal that is non-qualified, then the earnings portion of that withdrawal is taxed federally and by Colorado. It is also subject to a Federal 10% penalty. The portion that is a contribution must be recaptured on your Colorado state income tax return since you received a deduction for it when contributed.

Issue 12: Tax Efficient Education Accumulations

Recommendation: Liquidate the $22,000 that you have set aside the municipal bond fund and allocate it to the 529 plan. We will help you find an account and investment mix that best suits you, but we will be using the plans at Collegeinvest.org which are all CO 529 plans (ALL of the Colorado 529 plans can be found there). If you use another state's 529 plan it will not be deductible on your state income taxes. Contribute $2,830/year to this plan since Jim's parents will be providing $1,200/year of the total $4,030 you need.

Advantages: Your contributions will be deductible from taxable income for purposes of your state income taxes. The return on your investment is not taxable as long as the funds are used for qualified purposes. You control the assets throughout the duration of the account holdings. And the account owner decides when and how the money is withdrawn. You can change the account's beneficiary to someone else in the family, even yourself, or leave the funds in the account to be used at a later date since there are no time requirements to use the funds.

Disadvantages: In the event of a nonqualified withdrawal (something other than tuition, room, board, books and mandatory fees at a qualified institution for a qualified beneficiary) the original contribution is recaptured for state income tax purposes, the **return on your investment** (not contribution) is subject to federal and state income taxes and a 10% penalty.

Alternative: Consider a Coverdell ESA which can also be used for private K-12 education in addition to higher education like the 529.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Retirement planning

For most people retirement planning is at the center of their desires or goals. So, rightfully a lot of emphasis is placed on this aspect of your plan. So much so that in an integrated approach we are taking retirement planning into account in almost everything, i.e. how does your life insurance effect retirement goals, how do taxes impact it, etc., etc. Retirement planning is much more than a steady stream of funds into and then out of an account. Is your goal achievable? With the right set of facts and circumstances, that question could be answered in more ways than anyone would care to hear about. So, with the help of statistical modeling we come up with confidence zones that can quantify the likelihood of achieving outcomes given a **specific set ("planned set")** of facts and circumstances. In your case, a retirement age of 62 would require more savings or a lower cost of living than what you desire. In order to achieve that standard of living you will have to work a few years longer. Instead, we have projected a retirement age of 65.

In an imaginary/fairy tale world, nothing changes and everything is static. In the real world, everything is fluctuating and we can take an immense amount of historical data to evaluate statistically possible outcomes and begin narrowing down those outcomes to come up with plans that for example have a 70% probability of success. We can be confident that we can achieve desired goals. (In this example 7 out of 10 times your goals would be achieved). It is important to understand that "confidence" is not certainty because the future cannot be predicted with 100% accuracy. Just like most things in life there is a "sweet spot". This sweet spot is the point of savings, risk, return, and asset mix that allows us to generate a portfolio and plan that will give you a comfortable feeling of confidence in your plan.

Issue 13: Retirement accumulation plan

Recommendation: (more of a reminder to revisit this down the road)

For projection purposes we have selected a strategy of delaying social security until age 70 which will result in a benefit increase that is equivalent to 8% annually. In our current interest rate environment this is a HUGE return on your investment of waiting. There are factors like health that might change this strategy dramatically, so for that reason and the others mentioned below, be prepared to discuss this more in the future.

It is important to reconsider Social Security planning as you get closer to retirement age for the following reasons. It is likely that between now and then your benefit amount will change (it is based on your 35 highest years of salary and that is likely to change). Social security is facing a funding shortfall, so it is likely that the some of the following changes could be implemented: change in full retirement age, change in benefit calculation, increase in SS payroll tax rate, changing or removing the cap on earnings subject to SS tax, changes in the cost of living adjustments for SS, change in the way it's taxed or removal (partial removal) of benefit when you have other income sources. It is unlikely that there would be a dramatic change in all of these factors instead it's probably going to be somewhat unperceptively small changes in ALL of the factors to maintain the political feasibility of changes.

Advantages: The level of accuracy in your plan is good, but it will improve as we update it with changes in SS planning. It keeps you engaged as facts and circumstances in both your retirement and the arena of social security change. Delaying social security benefits helps address the huge retirement risk of "longevity". Longevity risk is the risk that you will outlive your money. When delaying you benefit you guarantee yourself a higher benefit that will not expire and will not be subject to the volatility of the markets.

Disadvantages: Reconsidering the plan will take time and money. In the event that you die before 70, you end up with a scenario that would have played out much better had you taken your benefit early. For the delay to have been beneficial, you must live at least 8-10 years after age 70.

Alternative: Assume a full retirement age benefit of 67 or even an early retirement age which could be a plausible strategy depending on how things change over the next 20 years.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

If you keep saving what is projected, your employer continues to contribute to your retirement plan, your lifestyle remains consistent and interest rates, return rates and inflation are within normal limits AND if you were to save an additional $506,749 ($14,500 each year) you could reach your retirement age goal of 62 with a reasonable confidence zone. We are working on freeing up more money in your plan to increase your ability to contribute more. There are several key times in the future when you will be able to make a big change in savings levels. Some of those times are when your son finishes college, when your mortgage is paid off and when your need for life insurance and disability insurance diminishes. **Realizing how many interdependent factors there are, it is apparent how important it is that we revisit the plan regularly.**

The purchase of the family cabin

Recommendation: Wait until your mortgage is paid off and/or your son is out of college to purchase the cabin. If you wait 15 years (which is the pay-off date of the current mortgage to be refinanced), we estimate that the future value of your brother's portion of the cabin will have gone from $100k to approximately $145k. If you were to assume a ten year loan for that amount at 6.5%, your loan payment would be $1,646.45. If you were to begin saving for the cabin now, you could reach your savings goal in 15 years by saving $550/month (assuming the same modeled after-tax return and inflation rate for the cabin.

Advantages: Your current and near term savings can be used for retirement and college planning which you stated were more important than the cabin purchase. We've structured your long-term spending (next ~15 years) such that you can redirect other funds towards the cabin.

Disadvantages: This defers immediate action on the cabin and does not address all of the uncertainty related to the cabin. Your brother could decide he does not want to sell his portion, or he could die and leave his ownership to your nieces/nephews who might decide they don't want to sell or they could sell to an adverse party. The value of your brother's share could rise so much that it could become unaffordable.

Alternative: Accept a diminished level of retirement savings in order to begin paying for or saving for the cabin now.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Your 3 basic options for savings (and their advantages/disadvantages) are:

1. Tax free accounts like Roth's (principal accessible without penalty, no required minimum distributions, permanent tax savings on income and growth but not immediate tax benefit) Roth IRA's have some bankruptcy protection from creditors and arguably from predators (people that see deep pockets and think it might be a good idea to sue you).
2. Tax deferred like 401k's or traditional IRA's made up of deductible contributions (loans might be available, immediate tax benefit, some exceptions for penalty free withdrawals before retirement and in some odd cases, like 457 plans, funds might be accessible without penalty before retirement (at separation of service) but required minimum distributions lock-in the

taxation at a certain point. With the exception of traditional IRA's most of the plans are covered by ERISA (Employee retirement income security act) and provide the highest level of protection from creditors/predators.

3. Post tax accounts like brokerage, savings, or other individual accounts that have been funded with money that has already been taxed. (great flexibility because there are only tax impacts if liquidation creates a taxable gain or loss and can be optimized for taxes by long holding periods = low long-term capital gains rates or municipal bond interest for tax free income or managed for liquidity). Disadvantage is that these assets have no protection from creditors or predators.

Ideally you should have some balance between these three buckets because it allows for "tax diversification". We can forecast certain things about your tax rates, but having a balance between these kinds of vehicles allows you to optimize your tax situation both while working and during retirement.

For example: if someone was to save everything in tax deferred accounts at the expense of tax free or post tax accounts AND those investments did very well, their marginal tax rates when being subject to required minimum distributions would be exorbitantly high. Or let's say someone puts everything into tax free vehicles then they are giving up tax relief now (during the years they may need it most) for future tax relief when their income is likely to be less and in the case of Colorado state tax law less taxable - (for qualifying retirement distributions). It also allows you to be more flexible in tax efficiency. If you were to have a highly taxable event like exercising non-qualified stock options, you could use after tax assets to supplement your disposable income while deferring the tax on wages and salary to a larger than normal extent. Another example might be during a year of sabbatical when your earned income drops dramatically. That might be a great year to do a traditional to Roth conversion at a super low tax rate IF you had after tax savings to live on and pay the conversion tax. We are using all of these concepts in your plan. ***Since your savings is so heavily weighted towards after tax savings, we have recommended using that strength to generate a lot of current tax savings by maximizing your contributions to tax deferred retirement plans and using those after-tax assets to replace some of the take-home pay you gave up in making the 401k contributions.***

ESTATE PLANNING

Estate planning involves things like guardianship, wills and trusts, beneficiaries, titling of assets, advanced directives, power of attorney forms, gifts and charitable planning. We are not attorneys and we don't draft legal documents however, there is a significant amount of overlap in the financial planning process and ensuring that your estate plans are adequate, effective, and current when it comes to achieving your goals. The law will dictate exactly how these things take place and it is often complex, costly and completely contrary to your wishes if you don't have the proper documents in place to specify your wishes.

You have expressed concerns about Matt inheriting a large sum of money at a young age in the event that you and your grandparents died before Matt reached a mature age. As it stands now, it is not unreasonable to consider the possibility that he could inherit close to $5M in some scenarios. You realize Anne's sister may be a good potential guardian for Matt, but she does not have the same money management strengths, so she might not be a good choice as an executor or trustee of assets for Matt. A large inheritance like that might not encourage Matt to finish college and develop the type of career skill that he would otherwise be focused on. You want to provide for him but also make sure he is a fine, independent and upstanding citizen. Expecting a young person that is just starting out in life to effectively manage such a large sum of money could have very negative consequences. The world is littered with stories of people that inherited large sums of money only to squander it in a matter of a few years or hand it over foolishly to someone that is either unqualified or down-right criminal and lose it all.

Recommendation: Estate planning documents provide for your goals, wishes and desires when you're deceased or incapacitated.

Meet with an estate planning attorney to discuss the following:

- Advance directives - Health care proxies like a medical power of attorney allows another person to make medical decisions for you when you're unable. HIPPA authorizations allow others to access your medical information so that you have the appropriate level of information in order to make decisions and be informed. Living wills communicate your feelings and desires about life-sustaining/prolonging treatments in the event that you had a terminal illness.
- Will - Your will dictates who would receive personal property that does not transfer by operation of law (property that is titled a joint ownership with rights of survivorship) automatically "by operation of law" to the other joint owner when an owner dies. Your will also dictates who would be Matt's guardian or successor guardian if the primary is unable or unwilling or predeceases you. A will can also contain a provision for a testamentary trust that does not take effect until you die and while this type of trust will help make sure that your wishes are followed and your property benefits those you intended, it does not avoid probate.
- Trusts - A trust document dictates what happens to property that belongs to the trust. Trusts have MANY different purposes but at this point some simple trust planning will probably meet your needs. (Since your estate is not like to be taxable until it has grown a significant amount, current estate tax exemption is $5.43M per spouse, you don't have immediate estate/gift tax avoidance needs in your trust planning). In Colorado Living Trusts

allow you to avoid the cost and complexity of probate (a PUBLIC court proceeding during which a deceased person's assets are transferred to the people who inherit them).

Advantages: You'll have all of your goals and desires documented and in a form that will be recognized by others and the law and gives you the occasion to discuss those items with family and/or friends. We have already included an estimate for your attorney's fees for these items in the cash flow statement. A qualified estate attorney knows all of the pitfalls and has walked families, widows, widowers, and children through these processes before. They'll have specific feedback for you after they hear your goals and desires.

Disadvantages: This will take time, effort, and the estate attorney will charge you a fee for these services.

Alternative: Prepare these documents yourself or defer the visit for a short period of time, but neither of these are recommended.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

Titling of assets and beneficiary designations need to be updated and maintained to reflect your estate plan. You expressed a desire that if neither of you or Matt can inherit assets then Anne's sister and cousin would be next but without listing them as contingent beneficiaries or specifying that in wills or trusts, your wishes will NOT be followed. We'll get some direction from the attorney and then have periodic reviews that ensure that titles and beneficiary designations are still valid.

Recommendation: Jim and his parents should jointly review his parents planning documents and follow that up with a visit to his parents' estate planning attorney to make sure that everything is understood and give Jim the opportunity to ask clarifying questions.

Advantages: Provides for Jim's parents to review their plan and make sure that everything is current, and that Jim is willing, able, prepared and empowered to do what his parents actually want.

Disadvantages: This will take more time and money and potentially be uncomfortable for both Jim and his parents because it will require that he become intimately familiar with their financial situation.

Alternative: Use Jim and Anne's attorney for the review since he'll already have some background information about what's going on and might even have a tidbit or two for up-dates or improvements to Jim's parents' documents.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____

As the medical and financial power of attorney for your parents, you will want to make sure you have the following:

HIPPA authorizations. Health care directives like living wills, or in Colorado a completed and effective MOST form (Medical Orders for Scope of Treatment). A form which allows your parents to specify medical interventions and artificial nutrition. In addition, to documents make sure that you listen to and understand your parents' wishes and values and the "why" behind those wishes. You must be able to devote the time and energy to handling their healthcare needs.

The financial DURABLE power of attorney is for your parents' legal and financial affairs. I have CAPITALIZED DURABLE because if a POA is not durable then it cannot be used in the event that your parents are incapacitated which is precisely when you'll probably need it.

ANNUAL REVIEW

Ongoing plan updates are influenced by taxes, case law, legislation and benefits changes. As I write Ben Carson is closing in on the front running Republican nominee for President of the United States and he advocates getting rid of the IRS and all of the complexity that goes along with tax law and implementing a flat tax. While it's unlikely that this would happen, every year there are at least minor changes. Most recently the tuition and fees deduction expired which effects education planning. Many, including myself, considered universal health care an unlikely mandate, but ACA has changed that. The only thing we can count on is CHANGE. We will be ready to change with you and make sure you are ready, when we are having regular reviews.

Recommendation: Schedule an appointment to for one year from today so that we can revisit the plan and results of recommendations.

Advantages: You'll know how much closer you are to achieving your goals and whether or not you'll need any major course corrections or if maybe the picture has brightened, and your savings requirements have decreased. Your plan can be updated with what actually happens over the next year. Your plan becomes more accurate because there is that much less prediction. You'll have help with changes in the landscape of taxes, economy, benefits, insurance, retirement, education and politics.

Disadvantages: The reoccurring theme is time and money for most disadvantages.

Alternative: Do a thorough review of your plan and research all of the individual planning topic areas and compile the data to see how the last year and all of the changes might impact your goals.

Please initial: Accept_____ _____ Decline _____ _____ Defer or considering alternative _____ _____