MEDICUS
WEALTH PLANNING

Financial Plan

Executive Summary

November 30, 2018

John & Jane Smith
123 ABC St.
Draper, UT 84020

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123 ABC St.
Draper, UT 84020

Dear John and Jane,

Foremost, I'd like to thank both of you for the trust and confidence you've put in myself and my team to help put together your financial plan and prepare for a financially successful retirement.

It's been a pleasure putting together your plan. You have been very responsive and easy to work with, and we greatly appreciate that.

This Executive Summary is meant to go hand-in-hand with the attached Financial Plan. The Executive Summary will explain in plain English each of our recommendations and why we are making the recommendation. The Financial Plan provides calculations, projections, and the data analysis that support each one of the recommendations.

Make note, that as circumstances change it's important to update your financial plan. Recommendations and/or projections made today may not be relevant in the future. Financial planning is a dynamic and fluid *process*, not a one-time event.

Once again, thank you for your trust and confidence. If you have any questions, please feel free to reach out to me or any of my associates.

Best Regards,

Kevin Michels, CFP®, EA
Fee-Only Financial Planner

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Recommendations

1) Your goal is to retire as soon as possible without suffering a significant decrease in lifestyle. By working an additional 3 years and retiring at age 58 you can live on $63,000 per year in after-tax income (adjusted for inflation). *See Scenario 6 of the Retirement Projections Section.*
2) Fund retirement expenses first from your taxable brokerage accounts, then Jane's IRA, and then from John's 401(k). This will allow you to take distributions not subject to penalty until John's age 59 ½ where you can start drawing from your biggest account, John's IRA. Your Roth IRAs should be the last accounts you use to fund retirement expenses. *See Retirement Projections Section.*
3) Jane should claim her social security benefit at age 67 and then switch to her spousal benefit once John claims his benefit at age 70. *See Retirement Projections Section.*
4) Rebalance your investment/retirement accounts using the specific funds and allocations detailed in the Investment Management section. The overall asset allocation recommended is 62% Equity / 38% Fixed Income. *See Investment Management Section.*
5) Consider performing Roth IRA conversions in retirement to lower your Required Minimum Distributions and tax liability in the future. Roth conversions shouldn't be done until the year in which John turns age 59 ½ as to not deplete pre-tax accounts that can be used to fund retirement without penalties. Our projections indicate that at that point you can begin doing approximately $40,000 of Roth conversions per year before you are pushed into the next marginal tax bracket (22%) and the next capital gains tax bracket (15%). *See Tax Planning Section.*
6) Fund your Trust by re-titling assets listed in the Estate Planning section to the Trust. *See Estate Planning Section.*
7) Increase your Homeowner's Insurance coverage to 100% of replacement value. *See Insurance Section.*
8) Increase Auto Insurance coverage to $250,000/$500,000 and then obtain a $1 million Umbrella Policy. *See Insurance Section.*

Net Worth Analysis

A net worth analysis is simply an inventory of all assets and liabilities. Page 5 of the financial plan, *Net Worth Statement*, shows a current net worth of $1,165,203.

When analyzing net worth, it's not only important to pay attention to the bottom line (assets-liabilities) but to also make note of what types of assets are held and what type of liabilities are owed.

Assets

Upon retiring, the majority of assets should consist of "retirement capital", assets that can be used to fund retirement spending. In addition, retirement capital should be diversified across different tax-advantaged accounts such as pre-tax, Roth, and taxable brokerage accounts.

Approximately 69% ($927,270) of the Smiths assets can be used as retirement capital:

Cash Accounts - $9,716

Pre-Tax Accounts - $762,056

Roth and HSA Accounts - $109,625

Taxable Brokerage Accounts - $45,873

With the majority of their retirement capital held in pre-tax accounts, the Smiths could be susceptible to excessive Required Minimum Distributions (RMD) upon John turning age 70 ½. This means, that the Smiths may be required to withdraw more out of their accounts than they actually need for spending. One solution to consider is to perform Roth IRA conversions in certain years. This will be discussed in the Tax Planning section below.

The remaining 31% of the Smiths assets are in real property, more specifically their home and vehicles. One of the most important factors to the Smiths successful retirement plan is the decision they make on housing. The impact different housing decisions will have on their retirement will be discussed in the Retirement Projections section below.

Liabilities

The only liability the Smiths currently have is their residence mortgage with a remaining balance of approximately $179,000. Assuming a $390,000 home value gives them $211,000 of equity in their home, currently.

Retirement Projections

Optimal Cash-Flow Planning Method

These retirement projections have been prepared with the objective of illustrating the Smiths present and future cash flows, integrated with their assets and income taxes.

Cash Flow - Each year we compare income sources to annual expenses (all expenses included tax, savings, insurance, disposable income, etc.). In any year, if a surplus is generated, the excess is automatically added to savings and investments. If in any year there is a shortage of income to cover expenses, the amount needed to make up the shortage is withdrawn from investments. This approach is intended to reflect what would happen if a person/family is managing their funds in an optimal manner.

Assets - Every year savings and investments accounts will have potential interest, dividends, capital gains, or appreciation. We assume that the entire rate of return is reinvested into the account. This approach optimizes the potential growth of each asset account.

Taxes - Since income and FICA taxes can represent a substantial part of annual expenses, we carefully compute the tax burden every year. We use the actual IRS tax rate tables including annual adjustments for "indexing" the rate breakpoints and standard deductions. For high income taxpayers, itemized deductions and exemptions are phased out. Separate tax treatment is provided for dividends, capital gains, alternate minimum tax, the taxable portion of social security income and other areas where special treatment is required. The result is that, instead of showing a "guesstimate" of annual taxes, we provide a more accurate yearly indication of future potential taxes which allows us to create the most tax-efficient withdrawal plan.

Through our discussions we identified that the Smiths primary goal is for John to retire as soon as he can while ensuring a comfortable lifestyle throughout retirement for him and Jane. To that end, we modeled six different scenarios to show the impact different retirement dates, spending levels, and housing decisions would have on their retirement.

Under each scenario the following assumptions stay consistent:

INFLATION RATES:	3% annual inflation on all expenses (6% on medical expenses)
	2% annual increase on income brackets for tax calculations
	2% annual cost-of-living adjustment for social security benefits
RATES OF RETURN:	6% rate of return on invested assets
	0.50% rate of return on cash positions (checking/savings/money market)

SOCIAL SECURITY: Jane files for her benefit at age 67
John files for his benefit at age 70
Jane files for her spousal benefit at age 76

LIFE EXPECTANCY: John's life expectancy is 90, Jane's 85

CASH SURPLUS: Any year a cash surplus is projected, the surplus is added to a savings account bearing 0.50% interest.

MONTE CARLO: For Monte Carlo purposes a standard deviation of 10% is used, resulting in a range of calendar year returns between -14% and 26%, 95% of the time.

Below is a summary of each scenario and the results of the projections:

1) **John Retires at Age 56, Smiths Stay in South Jordan Home**

Under this scenario the following assumptions were made:

- John retires at age 56
- The Smiths stay in their South Jordan home
- The Smiths have approximately $71,000 of after-tax spending the first year in retirement. This is 100% of the total estimated on the Smith Expense Spreadsheet.

In this scenario, using straight line growth and inflation, our retirement projections indicate that John, as the surviving spouse, will pass away with approximately $200,000 in retirement capital. However, keep in mind a consistent 6% return and 3% inflation year-after-year is not realistic. Although over the long term, growth and inflation may average out to 6% and 3%, the sequence of calendar year returns matters greatly.

A Monte Carlo Simulation, which assumes a long-term average 6% growth rate and 3% inflation rate, but randomizes year-to-year returns and inflation indicates the following possibilities based on 10,000 different simulations:

- 72% probability of not running out of money by John's age 75
- 64% probability of not running out of money by John's age 80
- 56% probability of not running out of money by John's age 85
- 46% probability of not running out of money by John's age 90

Generally, we like to see an 85% probability or better at the surviving spouse's life expectancy. If we can get to at least an 85% probability in the Monte Carlo Simulation, small temporary adjustments to lifestyle and spending, if needed throughout retirement, can hedge against the 15% probability of running out of money.

2) John Retires at Age 56, Smiths Sell Home and Rent

Under this scenario the following assumptions were made:

- John retires at age 56
- The Smiths sell their home and net $197,697 on the transaction after paying off their mortgage and sales costs.
- The cash from the sale of the home is invested in a taxable brokerage account
- After-tax income spending increases to $76,000 after subtracting out mortgage payment, property taxes, homeowner's insurance, and home repairs and adding rent ($1,750/month) and renter's insurance ($20/month) and adjusting utilities ($230/month down to $180/month). This is roughly a 7% increase on the estimated retirement expenses from the Smith Expense Spreadsheet.

Under this scenario, the Retirement Capital Estimate indicates that John, as the surviving spouse, runs out of retirement capital at age 89, one year before his life expectancy.

The Monte Carlo Simulation indicates the following probabilities:

- 78% probability of not running out of money by John's age 75
- 64% probability of not running out of money by John's age 80
- 50% probability of not running out of money by John's age 85
- 39% probability of not running out of money by John's age 90

While selling the home and investing the proceeds increases your retirement capital initially, the extra expense of renting vs owning drains your capital over the long run. In addition, the cost of your mortgage is fixed over the entire life of the loan while rent increases each year with inflation.

3) John Retires at Age 56, Smiths Sell Home and Replace with a $325,000 Home

Under this scenario, the following assumptions were made:

- John retires at age 56
- The Smiths sell their home and net $197,697 on the transaction after paying off their mortgage and sales costs
- The Smiths purchase a home in St. George for $325,000
- After-tax spending is reduced to $68,000 after adjusting for new mortgage payment ($733/month), utilities ($180/month), home repair and maintenance ($140/month), and property taxes ($152/month). This is approximately a 7% decrease on the estimated retirement expenses from the Smith Expense Spreadsheet.

Under this scenario, the Retirement Capital Estimate indicates that John, as the surviving spouse, passes away with approximately $600,000.

The Monte Carlo Simulation indicates the following probabilities:

- 82% probability of not running out of money by John's age 75
- 77% probability of not running out of money by John's age 80
- 65% probability of not running out of money by John's age 85
- 53% probability of not running out of money by John's age 90

While this scenario provides better results than the previous two, the Monte Carlo Simulation is still not high enough for us to confidently recommend that John retire at age 56 at the Smiths desired level of spending. In this case, two adjustments (or a combination of the two) can be made:

- The Smiths can reduce their spending in retirement.
- John can work longer.

4) John Retires at Age 56, Smiths Reduce Discretionary Spending By 17%, and Reduce Their Home Purchase to $250,000

If John wants to retire at age 56, the Smiths need to make some adjustments to their spending in retirement as well as their ideal housing situation. The good news of starting retirement with a lower spending budget is, given average or better-than-average market returns, you can adjust your spending upwards later on in retirement. Under this scenario, the following assumptions were made:

- John retires at age 56
- Upon John's retirement, the Smiths sell their home and net $197,313 on the transaction after paying off their mortgage and sales costs.
- The Smiths purchase a home in St. George for $250,000.
- The Smiths reduce their discretionary spending by 17%, paired with a lower mortgage, the Smiths reduce their overall spending to $57,000, a roughly 20% decrease from estimated retirement expenses.

In this scenario, the retirement projections indicate that John, as the surviving spouse, will pass away with approximately $1.6 million in retirement capital.

The Monte Carlo Simulation indicates the following probabilities:

- 98% probability of not running out of money by John's age 75
- 97% probability of not running out of money by John's age 80
- 93% probability of not running out of money by John's age 85
- 85% probability of not running out of money by John's age 90

5) John Retires at Age 60, Smiths Do Not Reduce Discretionary Spending or Home Purchase

Working longer has many positive effects on your retirement projections. It allows more time for the Smiths to save and more time for investments to compound. By working longer, the amount of years in retirement the Smiths need to fund are reduced. While John is working, Rio Tinto continues to subsidize the family health insurance costs. In addition, John can increase his social security benefit and there is less time between retiring and claiming his social security benefits which reduces the Smiths dependability on positive market returns during early years of retirement.

Under this scenario, the following assumptions were made:

- John retires at age 60
- Upon John's retirement, the Smiths sell their home and net $256,097 on the transaction after paying off their mortgage and sales costs (they net more in their scenario due to the combination of appreciation and paying off their mortgage)
- The Smiths purchase a home in St. George for $325,000 ($367,000 after adjusting for appreciation)
- After-tax spending is reduced to $60,000 after adjusting for new mortgage payment ($683/month), utilities ($180/month), home repair and maintenance ($140/month), property taxes ($152/month), and health insurance ($900/month). This is approximately a 15% decrease in overall spending all attributable to a lower mortgage payment.

The retirement projections indicate that in this scenario John, as the surviving spouse, would pass away with approximately $2.3 million in retirement capital.

The Monte Carlo Simulation indicates the following probabilities:

- 99% probability of not running out of money by John's age 75
- 98% probability of not running out of money by John's age 80
- 94% probability of not running out of money by John's age 85
- 85% probability of not running out of money by John's age 90

6) John Retires at Age 58, Smiths Reduce Discretionary Spending By 15%, But Do Not Reduce Home Purchase

Alternatively, instead of just working longer or just reducing expenses, the Smiths could do a combination of the two. Under this scenario we made the following assumptions:

- John retire at age 58
- Upon John's retirement, the Smiths sell their home and net $226,034 on the transaction
- The Smiths purchase a home in St. George for $325,000 ($349,989 after adjusting for appreciation)

- The Smiths reduce their discretionary spending by about 15% which amounts to an overall after-tax spending of approximately $63,000, 11% less than the estimated retirement expenses.

In this scenario, the retirement projections indicate that John, as the surviving spouse, will pass away with approximately $2 million in retirement capital.

The Monte Carlo Simulation indicates the following probabilities:

- 99% probability of not running out of money by John's age 75
- 97% probability of not running out of money by John's age 80
- 93% probability of not running out of money by John's age 85
- 84% probability of not running out of money by John's age 90

Out of the six scenarios above, we would recommend Scenario 6. The Smiths can mitigate more risks by John working an additional two years and reducing their spending:

1) Since John is retiring before age 59 ½, the Smiths cannot access their biggest account, John's Traditional IRA, without incurring a 10% penalty. They can use their taxable brokerage accounts, Jane's IRA, Jane's Roth IRA, and John's 401(k) for spending, but if they deplete those accounts before the year in which John turns 59 ½ they will be forced to claim Jane's social security benefit early or pay the 10% penalty on withdrawals from John's IRAs. The current total dollar amount of accessible accounts not subject to the 10% penalty is approximately $310,000. If John were to retire at age 56 we estimate the Smiths will spend approximately $240,000 between John's age 56 to the year in which he turns 59 ½. That means a 20% drop in their portfolio between now and John's age 59 ½ would possibly force the Smiths to take withdrawals from accounts subject to a 10% penalty.

2) One of the biggest risks in retirement is sequence of returns risk. This refers to the risk of earning negative or low returns during the early years of retirement, which has a much more negative impact on your overall portfolio then earning negative or lower returns near the middle or end of retirement. By working an additional two years, you lower your withdrawal rate (annual withdrawal amount/total portfolio) and you are two years closer to collecting social security, which reduces your dependency on retirement accounts.

3) Last, by starting retirement with a lower spending target, given normal or better-than-normal market returns, the Smiths may be able to incrementally increase their spending throughout retirement. Increasing spending is a much easier adjustment to make than decreasing spending.

Investment Management

Currently the Smiths have approximately $917,554 in invested assets:

L& J Stocks:	$21,072
Rio Tinto ESPP:	$7,519
Jane's Traditional IRA:	$114,005
John's 401(k):	$126,103
John's Traditional IRA:	$521,948
Jane's Roth IRA:	$49,007
John's Roth IRA:	$34,131
Health Savings Account:	$26,487
Smith Stocks:	$17,282
Total:	$917,554

The overall asset allocation of the Smiths portfolio is approximately 60% equity / 40% fixed income, which is in line with what we would recommend. However, it's important that each account has an asset allocation that matches the time horizon of when the funds will be used. It's also important that each account is diversified across multiple asset classes including US Large, Mid, and Small Cap, International, Emerging Markets, and Fixed Income. To that end we recommend the following:

L&J Stocks & Rio Tinto ESPP – 60% Equity / 40% Fixed Income

The L&J Smith Stocks taxable brokerage account is held at TD Ameritrade. We would recommend that once the Rio Tinto ESPP shares vest that the Smiths sell them immediately and add the proceeds to this account. As the least tax-efficient account, we would recommend that this account be used first to fund retirement expenses. The fund recommendations below are all passive ETFs, with expense ratios all below 0.10%. They also trade commission-free at TD Ameritrade.

Asset Class	Symbol	Fund	Allocation
US Total Stock Market	SPTM	SPDR Portfolio Total Stock Market	45%
International Large Blend	SPDW	SPDR S&P World Ex-US	15%
U.S. Fixed Income	SPAB	SPDR Portfolio Aggregate Bond	30%
International Fixed Income	IAGG	iShares International Bond	10%

Jane's Traditional IRA – 60% Equity / 40% Fixed Income

Jane's Traditional IRA is held at TD Ameritrade. Once the L&J Smith Stocks account is depleted Jane's Traditional IRA is the next account we would recommend using to fund retirement expenses primarily because no penalty will be assessed for early withdrawals and there is more flexibility in tax withholding than a 401(k). With a 401(k) you must withhold 20% in federal taxes on each withdrawal. This is almost twice as high as what the Smiths will actually be paying during most of their retirement, and while the overpayment of tax will be recouped when the Smiths file their taxes, it's better to keep that money invested and growing. For that purpose, we would recommend depleting Jane's Traditional IRA before making withdrawals from John's 401(k).

Asset Class	Symbol	Fund	Allocation
US Total Stock Market	SPTM	SPDR Portfolio Total Stock Market	45%
International Large Blend	SPDW	SPDR S&P World Ex-US	15%
U.S. Fixed Income	SPAB	SPDR Portfolio Aggregate Bond	30%
International Fixed Income	IAGG	iShares International Bond	10%

John's Rio Tinto 401(k) – 60% Equity / 40% Fixed Income

Since John is retiring before he can take withdrawals from his IRA penalty-free (age 59 ½), it's imperative that he keeps his 401(k) with Rio Tinto instead of rolling it to an IRA. He will qualify for the separation of service rule, which allows him to take withdrawals from the 401(k) penalty-free since he is older than 55. Once Jane's Traditional IRA is depleted, John's 401(k) is the next account that should be used for retirement spending.

The Rio Tinto 401(k) plan offers a menu of funds to choose from. After screening each option, we would recommend the following funds and allocations for John's 401(k).

Asset Class	Symbol	Fund	Allocation
Large Cap Blend	VINIX	Vanguard Institutional Index	30%
Mid Cap Value	VMVAX	Vanguard Mid-Cap Value Index	10%
Small Cap Value	PRVIX	T. Rowe Price Small-Cap Value	10%
International Growth	RERGX	American Funds EuroPacific Growth	10%
US Fixed Income	PTTRX	PIMCO Total Return Inst.	20%
Global Fixed Income	TGBAX	Templeton Global Bond	20%

The year in which John turns 59 ½ we would recommend he roll his 401(k) to an IRA and invest in the same 60% equity / 40% fixed income portfolio recommended for the other accounts held there.

John's Traditional IRA – 60% Equity / 40% Fixed Income

By the time the Smiths deplete their taxable brokerage account, Jane's Traditional IRA, and John's 401(k), they should be able to access John's Traditional IRA without penalty. John's Traditional IRA is held at TD Ameritrade where we recommend he invest in the same 60/40 portfolio recommended for the other accounts held there.

Asset Class	Symbol	Fund	Allocation
US Total Stock Market	SPTM	SPDR Portfolio Total Stock Market	45%
International Large Blend	SPDW	SPDR S&P World Ex-US	15%
U.S. Fixed Income	SPAB	SPDR Portfolio Aggregate Bond	30%
International Fixed Income	IAGG	iShares International Bond	10%

John and Jane's Roth IRAs – 80% Equity / 20% Fixed Income

As the most tax-efficient accounts, we recommend the Smiths save the Roth IRAs as the last source for retirement spending. Since these accounts will only be used much later on in retirement (if at all), we recommend a more aggressive asset allocation of 80% Equity / 20% Fixed Income. These accounts are earmarked for long-term use and the additional volatility associated with including more equity in your allocation shouldn't be a concern. Like the other IRAs, these accounts are held at TD Ameritrade.

Asset Class	Symbol	Fund	Allocation
US Total Stock Market	SPTM	SPDR Portfolio Total Stock Market	60%
International Large Blend	SPDW	SPDR S&P World Ex-US	20%
U.S. Fixed Income	SPAB	SPDR Portfolio Aggregate Bond	10%
International Fixed Income	IAGG	iShares International Bond	10%

Health Savings Account – 40% Equity / 60% Fixed Income

The Health Savings Account will be used for medical expenses in retirement. If used for qualified medical expenses the withdrawals from this account are tax-free. Upon John reaching age 60, the Smiths can also use this account for normal retirement spending without incurring the 10% penalty, however if used for non-medical expenses distributions will be considered taxable income. Since this account will be used immediately for medical expenses and considering the extraordinary tax benefit it provides, we recommend taking a slightly more conservative approach with its allocation. We recommend keeping at least one year's worth of expected withdrawals in cash and investing the rest in a 40% Equity / 60% Fixed Income allocation.

Asset Class	Symbol	Fund	Allocation
Allocation	VSCGX	Vanguard LifeStrategy Conservative Growth	100%

Smith Stocks – 80% Equity / 20% Fixed Income

Similar to the Roth IRAs, this account is earmarked for long-term use. The Smiths have expressed their desire to keep this account in their family and eventually pass it on to John's sister. It will only be used to fund retirement expenses as a last resort. Considering that desire, we recommend a slightly more aggressive asset allocation of 80% equity / 20% fixed income since withdrawals won't be taken from this account anytime soon.

Asset Class	Symbol	Fund	Allocation
US Total Stock Market	SPTM	SPDR Portfolio Total Stock Market	60%
International Large Blend	SPDW	SPDR S&P World Ex-US	20%
U.S. Fixed Income	SPAB	SPDR Portfolio Aggregate Bond	10%
International Fixed Income	IAGG	iShares International Bond	10%

Tax Planning

Current Tax Situation

Page 21 of the financial plan, *Income Tax - Current Year*, estimates the Smiths will pay approximately $13,309 in income taxes between Federal ($4,330), FICA ($5,760), and State ($3,219). This puts them in the 12% Federal tax bracket and the 5% State tax bracket for a combined tax bracket of 17%.

Since the Smiths fall within the 12% Federal tax bracket their qualified interest, dividends, and capital gains are taxed at a 0% rate. This means the majority of all their investment earnings in their taxable brokerage accounts will be tax-free.

While John is working, we recommend he continue making tax-deductible contributions to both his 401(k) and his Health Savings Account. The combination of those two deductions lowers the Smiths tax liability by approximately $2,000.

Projected Tax Situation

Page 24 of the financial plan, *Federal Income Tax Worksheet*, indicates that while the Smiths filing taxes married filing jointly, they will be in the 12% tax bracket (15% tax bracket if the Tax Cuts and Jobs Act sunsets). At Jane's life expectancy, John begins filing as Single and jumps to the next tax bracket 22% (24% if the TCJA sunsets). Keeping the Roth IRAs as the last accounts to use for retirement spending is important because of this potential of a higher tax rate later on in retirement (due to single filing and the assumption of general tax rates rising) .

Roth IRA Conversions

Roth IRA conversions are a valuable tax-planning strategy. By converting pre-tax assets to Roth assets, you ensure all future growth in the account is tax-free. The year in which the conversion is made, the amount of the conversion is included in taxable income. This makes the decisions on *when* to do Roth conversions and *how much* to do extremely important.

Depending on when John retires, Roth IRA conversions could be a strategy that will help increase the Smiths Monte Carlo probabilities and ending retirement capital estimates. Once the Smiths are able to withdraw from John's Traditional IRA penalty-free (the year in which he turns 59 ½), we would recommend they consider performing annual Roth conversions.

The amount they convert each year will depend on their taxable income. We recommend they meet with their CPA near the end of the year to calculate their taxable income and to determine how much they can convert without bumping themselves up into the next tax bracket. According to our projections, the Smiths would be able to convert up to

approximately $40,000 the year in which John turns 59 ½, without moving from the 12% tax bracket to the 22%. A Retirement Projection scenario was conducted to determine the benefits of doing Roth conversions in retirement. Assuming the Smiths follow the recommendations made in Scenario 6 (John Retires at Age 58, Smiths Reduce Discretionary Spending By 15%, But Do Not Reduce Home Purchase), and they do $30,000 conversions from John's age 59 to 70, they increase their estimated retirement capital from $2 million to $2.5 million and their Monte Carlo probability from 85% to 90%.

Keep in mind, we don't recommend the Smiths do any Roth conversions before the year in which John turns 59 ½ because the extra tax liability associated with the conversion will put a drain on their accounts that are accessible without penalties.

Since we don't recommend the Smiths do any Roth conversions for at least four years, this is a recommendation worth visiting before the Smiths execute it in the future. The tax liability and consequences of Roth conversions are important to understand and get right the first time since the Tax Cuts and Jobs Act repealed the ability to effectively "unravel" a conversion.

Estate Planning

Proper estate planning provides for the efficient management and/or distribution of assets should one or both of the Smiths become disabled and/or when they die.

Under current estate tax laws, the Smiths estate will not be subject to federal estate taxes. However, should they become disabled and/or unable to manage their own financial affairs, it is important they have a plan in place for the proper management of finances as well as the proper distribution of their estate upon their passing.

It is extremely important for the Smiths to review estate documents periodically to ensure they reflect their wishes. In addition, they should make sure that they are readily available should something unexpected happen to them. The following is a short definition of the basic estate planning documents usually included in an established estate plan:

- **Durable Power of Attorney** – Provides for an "agent" to act on the Smiths behalf with regards to their financial affairs should they become incapacitated. The Smiths have both named each other as their agents. VaNiece Carter and Ryan Lunceford are named as successor agents.
- **Will** – Provides direction on whom or what will receive estate assets and who will ensure that it happens according to the Smiths directions. Currently they have a Pour-Over Will which acts as a safety net by automatically transferring any assets of their personal estate to their Trust.
- **Utah Advanced Health Care Directive** – The Utah legislature has combined a Living Will and a Health Care Power of Attorney into one document called an Advanced Health Care Directive.
    - **Living Will** – Outlines how and under what circumstances and conditions "life sustaining" medical procedures will be utilized.
    - **Health Care Power of Attorney** – Provides an "attorney-in-fact" authority to make decisions regarding health care should the Smiths become incapacitated or unable to make those decisions on their own. They have both appointed each other as agents. VaNiece Carter and Ryan Lunceford are named as successor agents.
- **Revocable Living Trust** – Provides for the management and transfer of those assets "in" the trust upon disability or death without having to go through the probate process. The Smith Family Trust was created on December 16,2015. John and Jane are both currently the trustees of the Smith Family Trust with VaNiece Carter, Ryan Lunceford, and Rachel Smith as successor trustees in that order.

A Revocable Living Trust must be funded in order for assets to be distributed according to the language of the Trust. This means assets must be retitled to the Trust. Assets that should be transferred to the trust are any assets that would normally go through the probate process. Including:

- Your home
- Your vehicles
- Your checking and savings accounts
- Both of your taxable brokerage accounts at TD Ameritrade

While a simple beneficiary form on financial accounts will normally exempt them from going through probate, having the assets titled to the trust allows for better incapacity planning and creditor protection.

Insurance

One of the most important parts of a financial plan is identifying and insuring risks that have a small probability of happening but could cause a significant financial hardship.

Life Insurance

Currently John and Jane have their life insurance policies through John's employer, Rio Tinto. Rio Tinto provides John with $140,000 of term life insurance for no cost. Jane is insured for $50,000, for a total annual premium of approximately $133.

The Smiths need no additional life insurance on top of what Rio Tinto is providing. Should John pass away early and unexpectedly, Jane would have all their retirement accounts and John's social security benefit at her disposal. If Jane were to pass away early and unexpectedly, John would have all their retirement accounts and his own social security benefit at his disposal.

Disability Insurance

With John retiring in the next 0-4 years, the Smiths do not need any disability insurance.

Health Insurance

Assuming John retires at age 58, he will have to purchase and maintain private insurance for seven years and Jane for one year. Currently, an average Silver Plan in Utah would cost approximately $2,000 per month total while an average Bronze Plan would cost around $1,000 per month. At $70,000 of adjusted gross income in retirement, the Smiths wouldn't be eligible for a premium tax credit. This leaves them 100% responsible for the health insurance premiums. In the plan projections, we assume that they enroll through the marketplace and pay an average of $750/month/person for private insurance until they each reach age 65 and switch to Medicare.

An alternative option to consider is joining a Healthcare Sharing Ministry. It's important to note that this is NOT insurance and the ministry is not legally obligated to pay claims. It's simply a large group of people who come together and promise to share healthcare costs. The four biggest ministries around are:

- Medi-Share
- Liberty Healthshare
- Samaritan Ministries
- Christian Healthcare Ministries

It's absolutely crucial that due diligence is performed beforehand to ensure that all health conditions and medications are covered.

The risks associated with a Healthcare Sharing Ministry are:

- They are not legally obligated to pay claims
- Some ministries have a lifetime cap on benefits
- Pre-existing conditions may not be covered

Home Owner's Insurance

Home Owner's Insurance consists of two general types of coverages, Section I – Property Coverages and Section II – Liability Coverages.

Section I – Property Coverages

- Dwelling Coverage – This protects the actual physical home. We recommend having 100% of the replacement value of the home in dwelling coverage. As a rule-of-thumb, this is usually around 80% of the market value of a home. Currently the Smiths dwelling coverage is $286,000 which is 73% of their estimated home market value of $390,000. We would recommend increasing that to at least $312,000, which is 80% of the home value.
- Other Structures - This protects structures detached from the home, for example a detached garage or shed. Like dwelling coverage, coverage equal to 100% of the replacement value is recommended. The Smiths currently have $28,600 of other structures coverage. If the Smiths have no detached structures that need to be insured they can inquire with their insurance agent about dropping this coverage, although it's not always possible to do.
- Personal Property – Personal property coverage covers all personal belongings and is usually figured as a percentage of your dwelling coverage. The Smiths personal property coverage is $200,200 or 70% of your dwelling coverage. This is higher than the average personal property coverage, usually between 20% - 50%. However, that is not to say that the full $200,200 isn't needed. By taking a quick inventory of all personal belongings (clothes, electronics, bikes, etc.) a determination can be made to how much personal property coverage is needed.
- Loss of Use – This coverage protects against additional costs associated with not being able to live in your home. For example, living in a hotel, moving costs, storage costs, etc. The Smiths are insured for $85,800 which is 30% of their dwelling coverage.

Section II – Liability Coverages

- Personal Liability – Personal liability coverage protects against bodily injury, property damage, and any medical bills or legal fees the Smiths may be liable for in the event of an unfortunate accident. Their liability coverage is $300,000. This is a good amount to have because it qualifies the Smiths to purchase an umbrella policy which will cover additional liability above and beyond the $300,000 limit.
- Medical Payments to Others Each Person – This coverage is intended to cover smaller claims when bodily injury happens to someone else, whether or the homeowner is responsible. The Smiths current coverage of $2,000 per person is sufficient.

The Smiths deductible is currently set at $500. Normally, I would recommend a higher deductible which would lower the cost of the insurance. However, an annual premium of $604 for a $500 deductible is a good price.

Auto Policy

- Bodily Injury Liability – This coverage helps pay costs associated with another person's injuries if you are the cause of an accident. Coverage is currently at $100,000/$300,000 which means up to $100,000 per person per incident is covered and $300,000 total per incident. We'd recommend increasing this to $250,000/$500,000 so the Smiths will be eligible to purchase an umbrella policy.
- Property Damage Liability – This covers any damage caused to property by the insured. Currently coverage is at $50,000 which is sufficient unless an insurer requires more to be eligible for umbrella insurance.
- Uninsured/Underinsured Motorists Bodily Injury – This coverage protects in the case that another person causes an accident and is not insured or heavily underinsured. Coverage is currently at $100,000 per person and $300,000 per incident which is sufficient.

Umbrella Policy

Considering the Smiths net worth of $1.1 million we would recommend they purchase an umbrella policy. Umbrella policies offer additional liability coverage above and beyond homeowner's and auto limits. A $1,000,000 policy can be purchased a $1,000,000 for $150-$300 per year.

Summary

John and Jane, it's been a pleasure putting together your financial plan. I'm excited for John to soon enter into retirement so you can both enjoy your hobbies and each other's company, together.

Keep in mind that financial planning is a dynamic process and its critically important to revisit your financial plan on a regular basis. Over the next 30 years your personal situation will change, the economy will go through its cycles, the stock market will go through bear and bull markets, tax laws will be repealed, new ones will be enacted, etc. It's important that you continually revisit your financial plan and projections on an ongoing basis.

The fee you paid to put together this financial plan puts us on retainer for the next three months. From now until the middle of November please reach out at any time if you have a desire to run a "What-If?" scenario on your financial plan, have a question, need help implementing a recommendation, or just want to bounce an idea off us. We'd be happy to help.

Best Regards,

Kevin Michels, CFP®, EA
Fee-Only Financial Planner