

Financial Analysis

PREPARED FOR:

John and Jane Doe

October 14, 2020

PREPARED BY:

Travis Kellman, MSFP, CFP®, CRPC®, EA

CERTIFIED FINANCIAL PLANNER™

professional

Kellman Barnes Financial Planning

Schenectady, New York

(518) 372-5500

**Kellman Barnes
Financial Planning**



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Current Financial Position

Net Worth Statement

Current Plan

This report displays a comprehensive list of your assets and liabilities as of **Oct 14, 2020**. Use this report to better understand your net worth situation. **Note:** Term life insurance policies and annuitized annuities do not appear on this report as they have no cash value.

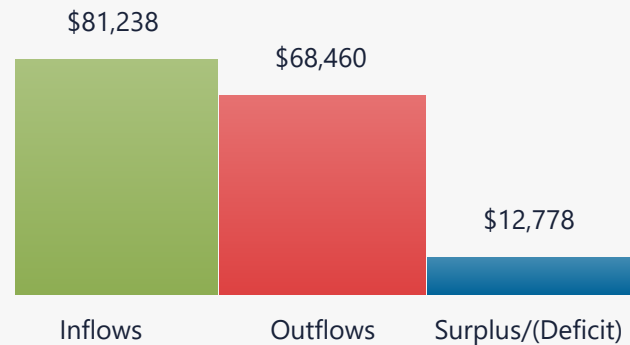
Assets	John	Jane	Joint	Total
Non-Qualified Assets				
Stock Brokerage Account	\$212,963			\$212,963
NEXT Select Moderate Growth JTWROS TOD			\$145,030	\$145,030
Total	\$212,963	\$0	\$145,030	\$357,993
Qualified Assets				
Employer Retirement Plan	\$312,586			\$312,586
NEXT Select Moderate Rollover IRA		\$300,315		\$300,315
NEXT Select Moderately Aggressive Roth IRA		\$60,812		\$60,812
Total	\$312,586	\$361,127	\$0	\$673,713
Lifestyle Assets				
Residence			\$507,500	\$507,500
Vehicles			\$27,750	\$27,750
Total	\$0	\$0	\$535,250	\$535,250
Liabilities				
Total	\$0	\$0	\$0	\$0
Total Net Worth	\$525,549	\$361,127	\$680,280	\$1,566,956

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Current Year Cash Flow


Current Plan

This report displays detailed cash flow information over a single year for the selected scenario. Cash inflows and outflows are divided into categories to explain their source. Use this report to understand whether a cash flow surplus or deficit exists for the current year for the selected scenario.



Current Year Cash Flow	John	Jane	Total
Inflows			
Pension & Social Security Income	\$54,156	\$15,720	\$69,876
Non-Qualified Proceeds	\$8,964	\$2,398	\$11,362
Total	\$63,120	\$18,118	\$81,238
Outflows			
Lifestyle & Medical Expenses	\$25,750	\$25,750	\$51,500
Non-Qualified Contributions	\$8,654	\$2,318	\$10,973
Taxes	\$4,770	\$1,217	\$5,988
Total	\$39,175	\$29,286	\$68,460
Surplus/(Deficit)	\$23,945	(\$11,168)	\$12,778

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Tax Analysis of Stock Sale & Roth Conversion

Qualified Account Activity in Retirement

Current Plan

The following report illustrates the activity in your qualified accounts throughout the retirement period. Required minimum distributions and additional qualified distributions provide income that is used to cover your retirement needs. While qualified accounts may be a large part of your retirement portfolio, it is important to note that other assets dedicated to your retirement goals are not included in the table below. Managing your qualified accounts is important and should be reviewed in detail to help you reach your goals.

Year	Age	SOY Market Value	Client's RMDs ¹	Co-Client's RMDs	Additional Distributions ²	Contributions	Growth	EOY Market Value
2020	67/63	\$662,308	\$0	\$0	\$0	\$0	\$19,766	\$682,074
2021	68/64	\$682,074	\$0	\$0	\$0	\$0	\$34,440	\$716,514
2022	69/65	\$716,514	\$0	\$0	\$0	\$0	\$36,179	\$752,692
2023	70/66	\$752,692	\$0	\$0	\$0	\$0	\$38,006	\$790,698
2024	71/67	\$790,698	\$0	\$0	\$0	\$0	\$39,925	\$830,623
2025	72/68	\$830,623	\$15,051	\$0	\$0	\$0	\$41,533	\$857,105
2026	73/69	\$857,105	\$15,761	\$0	\$0	\$0	\$42,851	\$884,195
2027	74/70	\$884,195	\$16,502	\$0	\$0	\$0	\$44,198	\$911,891
2028	75/71	\$911,891	\$17,277	\$0	\$0	\$0	\$45,576	\$940,190
2029	76/72	\$940,190	\$18,085	\$17,617	\$0	\$0	\$46,505	\$950,993
2030	77/73	\$950,993	\$18,839	\$18,448	\$0	\$0	\$47,008	\$960,714
2031	78/74	\$960,714	\$19,714	\$19,316	\$0	\$0	\$47,452	\$969,135
2032	79/75	\$969,135	\$20,521	\$20,223	\$0	\$0	\$47,830	\$976,221
2033	80/76	\$976,221	\$21,352	\$21,169	\$0	\$0	\$48,140	\$981,840
2034	81/77	\$981,840	\$22,208	\$22,051	\$0	\$0	\$48,377	\$985,957
2035	82/78	\$985,957	\$23,087	\$23,076	\$0	\$0	\$48,533	\$988,327
2036	83/79	\$988,327	\$23,988	\$24,020	\$0	\$0	\$48,603	\$988,921
2037	84/80	\$988,921	\$24,910	\$24,993	\$0	\$0	\$48,581	\$987,599

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Year	Age	SOY Market Value	Client's RMDs ¹	Co-Client's RMDs	Additional Distributions ²	Contributions	Growth	EOY Market Value
2038	85/81	\$987,599	\$25,677	\$25,995	\$0	\$0	\$48,467	\$984,393
2039	86/82	\$984,393	\$26,442	\$27,023	\$0	\$0	\$48,256	\$979,184
2040	87/83	\$979,184	\$27,202	\$28,078	\$0	\$0	\$47,944	\$971,847
2041	88/84	\$971,847	\$27,950	\$29,158	\$0	\$0	\$47,524	\$962,263
2042	89/85	\$962,263	\$28,682	\$30,055	\$0	\$0	\$46,996	\$950,521
2043	90/86	\$950,521	\$29,132	\$30,951	\$0	\$0	\$46,366	\$936,805
2044	-/87	\$936,805	\$0	\$55,642	\$0	\$0	\$45,794	\$926,956
2045	-/88	\$926,956	\$0	\$57,174	\$0	\$0	\$45,255	\$915,038
2046	-/89	\$915,038	\$0	\$58,670	\$0	\$0	\$44,613	\$900,981
2047	-/90	\$900,981	\$0	\$59,591	\$0	\$0	\$43,878	\$885,268

¹ RMDs are the required minimum distributions for your qualified accounts. ² Additional distributions consist of any capital withdrawals as well as any investment income that has not been reinvested above the required minimum withdrawal amount.

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First Year Detailed Income Tax

Current Plan

This report provides detailed income tax information for the first year of the plan.

Tax Filing Status: Married Filing Jointly

Regular Tax Calculation		
Calculation of Total Income		
Investment		
Interest	\$619	
Dividends	\$3,380	
Short-Term Capital Gains	\$4,427	
Interest	\$215	
Dividends	\$1,177	
Capital Gains (Short Term)	\$1,541	
Social Security (Taxable)	\$21,145	
Pension	\$45,000	
Total Income		\$77,504
Calculation of Adjusted Gross Income		
Total		\$0
Adjusted Gross Income		\$77,504
Calculation of Taxable Income		
Standard Deduction	\$26,100	
Total		\$26,100
Taxable Income		\$51,404
Regular Federal Tax Calculations		
Federal Tax on Taxable Income		\$5,227
Tax Credits (Non-Refundable)		
Total		\$0
Regular Federal Tax		\$5,227
Alternative Minimum Tax		
Standard Deduction (if not itemized)	\$0	
Medical and Dental (itemized)	\$0	
Taxes (itemized)	\$0	
Miscellaneous itemized deductions	\$0	
Post-1986 depreciation (difference)	\$0	

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Adjusted gain or loss (difference)	\$0	
Incentive Stock Options (difference)	\$0	
Passive Activities	\$0	
Other	\$0	
Total Adjustments and Preferences	\$0	
Alternative Minimum Taxable Income	\$77,504	
Exemption amount	\$113,400	
Tentative Minimum Tax	\$0	
Tax from form 1040	\$5,227	
Unused Non-Refundable Tax Credits	\$0	
Alternative Minimum Tax		\$0
Total Tax Calculation		
Regular Federal Tax		\$5,227
Alternative Minimum Tax		\$0
Net Federal Tax		\$5,227
New York State Income Tax		
Federal AGI	\$77,504	
State Additions		
Tax-free income	\$1	
Other	\$0	
State Subtractions		
US obligations	\$0	
Social Security	(\$21,145)	
Retirement income	(\$20,000)	
Other	\$0	
Standard/Itemized	(\$17,538)	
Personal Exemptions	\$0	
New York Taxable Income	\$18,822	
Tax	\$761	
Nonrefundable Tax Credits	\$0	
Refundable Tax Credits	\$0	
Total		\$761
State Tax Bracket		4.50%
Summary		
Total Income Tax		\$5,988
Total Taxes		\$5,988

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Federal Tax Bracket		12.00%
Effective Marginal Tax Rate		16.50%

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First Year Detailed Income Tax

\$15k Roth Conversion and Sell \$15k Stock

This report provides detailed income tax information for the first year of the plan.

Tax Filing Status: Married Filing Jointly

Regular Tax Calculation		
Calculation of Total Income		
Investment		
Interest	\$619	
Dividends	\$3,380	
Short-Term Capital Gains	\$4,427	
Interest	\$215	
Dividends	\$1,177	
Capital Gains (Short Term)	\$1,541	
Capital Gains (Long Term) from Investment Liquidations	\$13,397	
Social Security (Taxable)	\$21,145	
Pension	\$45,000	
Qualified Liquidations	\$15,000	
Total Income		\$105,901
Calculation of Adjusted Gross Income		
Total		\$0
Adjusted Gross Income		\$105,901
Calculation of Taxable Income		
Standard Deduction	\$26,100	
Total		\$26,100
Taxable Income		\$79,801
Regular Federal Tax Calculations		
Federal Tax on Taxable Income		\$7,027
Tax Credits (Non-Refundable)		
Total		\$0
Regular Federal Tax		\$7,027
Alternative Minimum Tax		
Standard Deduction (if not itemized)	\$0	
Medical and Dental (itemized)	\$0	
Taxes (itemized)	\$0	

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Miscellaneous itemized deductions	\$0	
Post-1986 depreciation (difference)	\$0	
Adjusted gain or loss (difference)	\$0	
Incentive Stock Options (difference)	\$0	
Passive Activities	\$0	
Other	\$0	
Total Adjustments and Preferences	\$0	
Alternative Minimum Taxable Income	\$105,901	
Exemption amount	\$113,400	
Tentative Minimum Tax	\$0	
Tax from form 1040	\$7,027	
Unused Non-Refundable Tax Credits	\$0	
Alternative Minimum Tax		\$0
Total Tax Calculation		
Regular Federal Tax		\$7,027
Alternative Minimum Tax		\$0
Net Federal Tax		\$7,027
New York State Income Tax		
Federal AGI	\$105,901	
State Additions		
Tax-free income	\$1	
Other	\$0	
State Subtractions		
US obligations	\$0	
Social Security	(\$21,145)	
Retirement income	(\$35,000)	
Other	\$0	
Standard/Itemized	(\$17,538)	
Personal Exemptions	\$0	
New York Taxable Income	\$32,219	
Tax	\$1,457	
Nonrefundable Tax Credits	\$0	
Refundable Tax Credits	\$0	
Total		\$1,457
State Tax Bracket		5.90%
Summary		

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Total Income Tax		\$8,483
Total Taxes		\$8,483
Federal Tax Bracket		12.00%
Effective Marginal Tax Rate		17.90%

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Recommendations

Tax Details

Recommendations

Convert \$15,000 of your pre-tax Rollover IRA to your after-tax Roth IRA. You are currently in the 12% federal tax bracket and will be until 2025 when John has to start making required minimum distributions (RMD). Based on his estimated RMD this will increase your taxable income and put you in the 22% federal tax bracket. It is for this reason that it is recommended that you pay taxes now on some of your pre-tax dollars at the lower rate. Consult with your tax advisor or CPA.

Sell \$15,000 of John's concentrated stock position and diversify the proceeds based on his risk tolerance. This has multiple benefits, (1) it reduces your diversifiable risk (the risk you are currently exposed to of ABC companies business decisions) and (2) the capital gains realized in addition to your other income results in 2020 taxable income of less than \$80,000 which puts you in 0% tax bracket for long-term capital gains. Consult with your tax advisor or CPA.

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Roth IRA Conversion

Converting your traditional IRA to a Roth IRA may increase retirement income

Characteristics	Traditional IRA	Roth IRA
Deductibility of contributions	Contributions to traditional IRAs can be deducted if they qualify.	Contributions are not deductible. This means that a conversion to a Roth will be a taxable event.
Required minimum distributions (RMDs)	RMDs must be taken at age 72.	RMDs are not required.
Are withdrawals taxable?	Deductible contributions and earnings are taxable in addition to a possible penalty for early withdrawals (before age 59 ½).	No, if the distribution qualifies and it does not occur before age 59 ½.
Which plan will be more beneficial from a tax perspective?	All else equal, the traditional IRA will be more beneficial if your income tax rate is lower during retirement than in earning years.	All else equal, the Roth IRA will be more beneficial if your income tax rate is lower during earning years than retirement.
■ Denotes best choice		

A Roth IRA conversion can provide several benefits including tax-free income and no required minimum distributions during the Roth IRA owner's life. Roth IRAs are not subject to lifetime required minimum distributions or after-death RMDs when transferred to a spouse. However, a conversion from a traditional IRA to a Roth IRA will incur an income tax consequence on the taxable amount of the conversion.

A conversion will generate a tax obligation. The amount and timing of that should be considered within your financial preparations. You may choose to pay for these income taxes from the account at conversion (which, in addition to ordinary income taxes, may result in a 10% federal income tax penalty if you have not reached age

59½ at the time the funds are taken from the account to pay the income taxes), or from an outside source which would maximize tax-free potential.

Distributions of taxable amounts taken from the traditional IRA would be taxable, while qualified distributions taken from a Roth IRA would be income tax-free. This is a key benefit of the Roth IRA conversion. However, even with the advantage of tax-free income, maintaining your original traditional IRA could result in a larger annual after-tax income than if the funds were converted to a Roth IRA. The benefits of both strategies should be discussed with a trusted professional to determine what is best for your situation.

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Social Security Restricted Application Strategy

Retirement Income & Expenses

Current Plan

This report shows your annual cash flow during the retirement period, for the selected scenario. Positive cash flow values are shown in bold whereas negative values are shown in red and in parentheses. Use this report to show detailed cash flow information and thereby demonstrate the underlying numbers that comprise the year-over-year cash flow graphs.

Year	Age	Social Security	Defined Benefit Pension	Required Minimum Distributions	Fixed Needs (incl. taxes)	Total Needs (incl. taxes)	Shortfall
2020	67/63	\$24,876	\$45,000	\$0	\$57,098	\$57,098	-
2021	68/64	\$25,622	\$45,000	\$0	\$57,463	\$57,463	-
2022	69/65	\$26,391	\$45,000	\$0	\$58,823	\$58,823	-
2023	70/66	\$51,142	\$45,000	\$0	\$62,398	\$62,398	-
2024	71/67	\$58,642	\$45,000	\$0	\$64,385	\$64,385	-
2025	72/68	\$60,402	\$45,000	\$15,051	\$69,708	\$69,708	-
2026	73/69	\$62,214	\$45,000	\$15,761	\$74,234	\$74,234	-
2027	74/70	\$64,080	\$45,000	\$16,502	\$76,173	\$76,173	-
2028	75/71	\$66,002	\$45,000	\$17,277	\$78,178	\$78,178	-
2029	76/72	\$67,982	\$45,000	\$35,702	\$84,553	\$84,553	-
2030	77/73	\$70,022	\$45,000	\$37,287	\$84,599	\$84,599	-
2031	78/74	\$72,123	\$45,000	\$39,031	\$86,937	\$86,937	-
2032	79/75	\$74,286	\$45,000	\$40,744	\$89,331	\$89,331	-
2033	80/76	\$76,515	\$45,000	\$42,521	\$91,840	\$91,840	-
2034	81/77	\$78,810	\$45,000	\$44,259	\$94,396	\$94,396	-
2035	82/78	\$81,175	\$45,000	\$46,163	\$97,064	\$97,064	-
2036	83/79	\$83,610	\$45,000	\$48,008	\$99,777	\$99,777	-
2037	84/80	\$86,118	\$45,000	\$49,904	\$102,570	\$102,570	-
2038	85/81	\$88,702	\$45,000	\$51,672	\$107,452	\$107,452	-

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Year	Age	Social Security	Defined Benefit Pension	Required Minimum Distributions	Fixed Needs (incl. taxes)	Total Needs (incl. taxes)	Shortfall
2039	86/82	\$91,363	\$45,000	\$53,466	\$111,914	\$111,914	-
2040	87/83	\$94,104	\$45,000	\$55,280	\$115,089	\$115,089	-
2041	88/84	\$96,927	\$45,000	\$57,108	\$118,353	\$118,353	-
2042	89/85	\$99,835	\$45,000	\$58,737	\$121,643	\$121,643	-
2043	90/86	\$102,830	\$45,000	\$60,083	\$124,937	\$124,937	-
2044	-/87	\$73,959	\$45,000	\$55,642	\$133,096	\$133,096	-
2045	-/88	\$76,178	\$45,000	\$57,174	\$137,009	\$137,009	-
2046	-/89	\$78,463	\$45,000	\$58,670	\$140,885	\$140,885	-
2047	-/90	\$80,817	\$45,000	\$59,591	\$144,667	\$144,667	-

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Recommendations

Retirement Goal

Recommendations

John, file a restricted application for spousal social security benefits. Then, once you reach age 70, switch to your own higher benefit. Because you were born prior to 1/2/1954, you have the ability to file for a spousal benefit at your full retirement age receiving a lower monthly payment while your own larger payment is suspended and earns delayed retirement credits.

Once you are age 70 you can stop the spousal benefit and elect to receive your larger delayed retirement benefit equal to 132% of your full retirement age benefit. For those born after 1/2/1954 this option is not available to them. As long as you live past age 78 you will receive more social security benefits than if you had just filed for your own benefit.

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Recommendations

For: John and Jane

Tax Details

Recommendations

Convert \$15,000 of your pre-tax Rollover IRA to your after-tax Roth IRA. You are currently in the 12% federal tax bracket and will be until 2025 when John has to start making required minimum distributions (RMD). Based on his estimated RMD this will increase your taxable income and put you in the 22% federal tax bracket. It is for this reason that it is recommended that you pay taxes now on some of your pre-tax dollars at the lower rate. Consult with your tax advisor or CPA.

Sell \$15,000 of John's concentrated stock position and diversify the proceeds based on his risk tolerance. This has multiple benefits, (1) it reduces your diversifiable risk (the risk you are currently exposed to of ABC companies business decisions) and (2) the capital gains realized in addition to your other income results in 2020 taxable income of less than \$80,000 which puts you in 0% tax bracket for long-term capital gains. Consult with your tax advisor or CPA.

Retirement Goal

Recommendations

John, file a restricted application for spousal social security benefits. Then, once you reach age 70, switch to your own higher benefit. Because you were born prior to 1/2/1954, you have the ability to file for a spousal benefit at your full retirement age receiving a lower monthly payment while your own larger payment is suspended and earns delayed retirement credits.

Once you are age 70 you can stop the spousal benefit and elect to receive your larger delayed retirement benefit equal to 132% of your full retirement age benefit. For those born after 1/2/1954 this option is not available to them. As long as you live past age 78 you will receive more social security benefits than if you had just filed for your own benefit.

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Important Terminology

Current plan

The current plan consists of information provided and reviewed by you and serves as the basis for some of the assumptions used in the proposed plan.

Proposed plan

The proposed plan is a system-generated plan that is calculated based on achieving your stated goals by applying the additional assumptions contained within the proposed scenarios.

Scenarios

A scenario is a modification of assumptions based on the current plan. A proposed scenario is incorporated into the proposed plan.

Rate of return (Current - Not Rebalanced)

Current - Not Rebalanced does not rebalance the accounts linked to a goal. Each account linked to a goal maintains a separate rate of return.

Rate of return (Current - Rebalanced)

Current - Rebalanced rebalances the accounts linked to a goal and uses the weighted average rate of return of the linked assets.

Rate of return (suggested asset mix)

The rate of return that is calculated based on the investment profile as determined by answers to a risk tolerance questionnaire.

Rate of return (implemented asset mix)

The dollar-weighted average rate of return of the assets in the proposed plan based on the assumptions defined in the proposed scenarios. A goal-based rate of return (implemented asset mix) represents the dollar-weighted average rate of return of the assets linked to that particular goal, based on the assumptions defined in the proposed scenario.

Rate of return (proposed plan)

The dollar-weighted average rate of return of the assets that are used in the implemented/suggested asset mix. This rate of return is the same as the *Rate of return (Implemented/Suggested Asset Mix)*.

Standard deviation

Standard deviation is a statistical measure of the volatility of an asset or account. It measures the degree to which the rate of return in any one year varies from the historical average rate of return for that investment; the greater the standard deviation, the riskier the investment.

Unlinked accounts

Unlinked accounts represent all non-qualified accounts that are not linked to a goal. (Qualified accounts are automatically linked to the retirement goal.) Unlinked accounts are assumed to be allocated to the estate.

Investment profile

The investment profile is the result of an analysis of an individual's investment objectives, time horizon, and risk tolerance.

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Portfolio

The combination of all assets owned by the client(s) and entered in the plan.

Time horizon

The length of time allocated to achieve a financial goal. A longer time horizon usually allows an individual to withstand more volatility, whereas a shorter time horizon typically requires less volatility and more liquidity.

Asset mix

The combination of asset classes within an investment portfolio. It can also represent a further division within an asset class such as a mix of small, medium, and large company stock assets.

Current Asset Mix

The combination of asset classes assigned to those assets included in the current plan.

Suggested Asset Mix

The asset mix that is derived based on the investment profile as determined by answers to a risk tolerance questionnaire and time until assets are needed to meet goals.

Implemented Asset Mix

The asset mix that results when the suggested asset mix is subject to certain modifications.

Entire portfolio

The entire portfolio for the current plan represents the asset mix of all accounts in the plan. The entire portfolio for the proposed plan is the combination of the suggested asset mix and the implemented asset mix associated with all of the goals included in the plan.

Blended mix

For the entire portfolio, a blended mix of investment profiles indicates that the investment profile has been defined differently for each goal. For the retirement goal, a blended mix of investment profiles indicates that the investment profile has been defined differently for each type of account (qualified retirement accounts, non-qualified retirement accounts, or non-qualified annuity retirement accounts).

Average tax rate

The assumed average tax rate that is applied against salary, self-employed income, Social Security, defined benefits, pensions, and other taxable income. The assumed average tax rate is typically less than the marginal tax rate based on the assumption that income is spread over multiple tax brackets.

Community property

In states with community property laws, any property acquired by a married couple residing in a community property state is considered to be equally owned by both parties.

Annuitize

The transition of an annuity contract from the accumulation phase into the income distribution phase. In the income distribution phase the accumulated value of the annuity is distributed via a computed stream of income payments over a duration of time or through varying withdrawals from the annuity.

Inflation rate/Index rate

The rate at which dollar values are discounted over time. The rate is measured by an index that indicates the change in the cost of various goods and services as a percentage.

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Effective marginal tax rate

This combined federal and state marginal tax rate is the actual percentage of total additional tax triggered by an additional dollar of ordinary income. It takes into account the impact of an extra dollar on taxes that results from such items as taxable Social Security, capital gains, and credits.

Marginal tax rate

The marginal tax rate is derived from the federal income tax brackets. It is the amount of tax that would be paid on any additional dollars of income. It is applied against interest, dividend, royalty, alimony, and capital gains income.

Required minimum distribution (RMD)

The amount required by the IRS to be withdrawn each year from traditional IRAs and employer-sponsored retirement plans, starting on the required beginning date, which generally (but not always) occurs in the year following the year in which the owner turns 70½.

Uniform Transfer to Minors Act (UTMA) and Uniform Gift to Minors (UGMA)

UTMA and UGMA are custodial accounts, owned by a minor with an adult designated as the custodian. The accounts are normally used to save for the child's education. Once the transfer to the account occurs, the account is the legal property of the child and can only be used for the child's benefit. When the child reaches the age of majority, control of the account transfers to the child and the child can use the proceeds as he or she wishes. The UTMA considers the age of majority to be 21 although it is 18 in some states.

Unlimited marital deduction (UMD)

A provision in the Internal Revenue Code which allows assets owned by the decedent to be transferred to the surviving spouse without incurring estate taxes.

Fixed expenses

Fixed expenses include ongoing expenses that you have determined cannot be easily changed or eliminated, such as basic living expenses or retirement living expenses.

Fixed needs

Fixed needs include all your fixed expenses, plus other expenses that have been calculated based on your financial information. These expenses include liability payments, insurance premiums, property taxes, and income taxes.

Lifestyle expenses

The definition of lifestyle expenses includes all expenses entered in the *Cash Flow* category where the type of expense is classified as lifestyle.

Total needs

The definition of total needs includes all fixed needs, all other expenses that are not considered in the fixed needs definition, and total taxes. The total needs in the plan will account, in part, for expenses that are more discretionary in nature.

Fixed incomes

The definition of fixed incomes includes the pre-tax income from the following income sources: Benefit Formula and Estimate Benefit pensions, income entered with the type *Pension*, Social Security income of the client and co-client (retirement, survivor, and disability benefits), income entered with the type *Salary*, and annuity income (excluding income from annuities with the income option of *Withdrawals as Needed*).

Asset class

A category of investments grouped according to common characteristics such as relative liquidity, income characteristics, tax status, and growth characteristics.

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Cash - Citigroup US Domestic 3 Month T-Bill Index

The objective of this benchmark is to reflect the returns provided by the short term fixed income instruments. The index is based on the U.S. 3 month Treasury Bills. This index measures monthly return equivalents of yield averages that are not marked to market. Calculations are based on the last 3, 3-month T-Bill issues. Returns for this index are then calculated on a monthly basis.

Commodities - Bloomberg Commodity Index

The Bloomberg Commodity Index is a broadly diversified index that allows investors to track commodity returns through futures contracts on physical commodities. Commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as "rolling" a futures position which is incorporated into the index.

Diversified Alternatives - CISDM Fund of Funds Diversified Index

The goal of this benchmark is to provide an estimate of returns generated by broad strategy hedge fund-of-funds. The CISDM Fund of Funds Diversified index reports the median return of hedge fund-of-funds that invest in multiple managers with a variety of fund strategies. Only funds that have reported net returns for the particular month are included in the index calculation.

High Yield Bonds - Bloomberg Barclays US Corporate High Yield Index

The U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded; to be eligible they must have previously held a high-yield rating or have been associated with a high-yield issuer, and must trade accordingly.

High Yield Municipal Bonds - Bloomberg Barclays Municipal High Yield Index

The Bloomberg Barclays Municipal High Yield index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. This index is a component of the Aggregate Municipal Bond index. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds. Average quality of the index is BA3/B1.

Intermediate-Term Bonds - Bloomberg Barclays US Government/Credit Intermediate

The objective of this benchmark is to measure the returns of intermediate-term bonds. The index is comprised of both government and credit fixed income securities. The government component includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The credit component includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Constituents of this benchmark must have a maturity of at least 1 year and up to but not including 10 years.

Intermediate-Term Municipal Bonds - Barclays Municipal 7 Yr Index

The Bloomberg Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds. Constituents of this benchmark must have a maturity of at least 6 years and up to but not including 8 years.

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International Bonds - Citigroup WGBI Non-US

The World Government Bond Index is a market-capitalization weighted benchmark that tracks the performance of fixed-rate sovereign debt issued in the domestic market in the local currency with at least one year maturity. The objective of this benchmark is to reflect the returns provided by investment in international (non-U.S.) fixed income securities. The minimum credit quality required is BBB-/Baa3 (by either S&P or Moody's) for all issuers to ensure that the WGBI remains an investment-grade benchmark.

International Emerging Markets Equity - MSCI Emerging Markets Index

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. With 1,124 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

International Equity - MSCI EAFE Index

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

International REITs - FTSE EPRA/NAREIT Developed ex US Index

The FTSE EPRA/NAREIT Developed ex US Index is a subset of the FTSE EPRA/NAREIT Developed Index and is designed to represent general trends in eligible real estate equities worldwide by tracking the performance of listed real estate companies and REITs. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate. As of January 2019, the index had 208 constituents. The average market capitalization was approximately \$3.434 billion; the median market capitalization was approximately \$1.806 billion.

International Small Cap Equities - MSCI EAFE Small Cap Index

The MSCI EAFE Small Cap Index is an equity index which is designed to capture small cap equity market performance across developed markets, excluding the US & Canada. The index consists of the following 21 developed markets: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK. With 2,344 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country.

Large Cap Equity - Russell 1000 Index

The Russell 1000 Index is a large-cap index consisting of the 1,000 largest companies in the Russell 3000 Index. As of January 2019, the average market capitalization was approximately \$193.266 billion; the median market capitalization was approximately \$9.901 billion.

Large Cap Growth Equity - Russell 1000 Growth Index

The Russell 1000 Growth Index contains those Russell 1000 securities with a greater-than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.

Large Cap Value Equity - Russell 1000 Value Index

The Russell 1000 Value Index contains those Russell 1000 securities with a less-than-average growth orientation. Securities in this index generally have lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.

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Long-Term Bonds - Bloomberg Barclays US Government/Credit Long

The objective of this benchmark is to measure the returns of long-term bonds. The index is comprised of both government and credit fixed income securities. The government component includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The credit component includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Constituents of this benchmark must have a maturity of 10 years or more.

Long-Term Municipal Bonds - Bloomberg Barclays Municipal 20 Yr Index

The Bloomberg Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds. Constituents of this benchmark must have a maturity of at least 17 years and up to but not including 22 years.

Midcap Equity - Russell Midcap Index

The Russell Mid Cap Index consists of the smallest 800 companies in the Russell 1000 index, as ranked by total market capitalization. As of January 2019, the average market capitalization was approximately \$14.989 billion; the median market capitalization was approximately \$7.710 billion. The largest company in the index had an approximate market capitalization of \$39.450 billion.

Short-Term Bonds - Bloomberg Barclays US Government/Credit 1-3 Yr

The objective of this benchmark is to measure the returns of short-term bonds. The index is comprised of both government and credit fixed income securities. The government component includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The credit component includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Constituents of this benchmark must have a maturity of at least 1 year and up to but not including 3 years.

Short-Term Municipal Bonds - Barclays Municipal 1 Yr Index

The Bloomberg Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds. Constituents of this benchmark must have a maturity of at least 1 year and up to but not including 2 years.

Small Cap Equity - Russell 2000 Index

The Russell 2000 Index is a small-cap index consisting of the smallest 2,000 companies in the Russell 3000 Index. As of January 2019, the average market capitalization was approximately \$2.288 billion; the median market capitalization was approximately \$0.783 billion. The largest company in the index had an approximate market capitalization of \$7.148 billion.

TIPS - Bloomberg Barclays Global Inflation-Linked US TIPS Index

This index measures the performance of the US Treasury Inflation Protected Securities ("TIPS") market. The index includes TIPS with one or more years remaining maturity with total outstanding issue size of \$250m or more.

US REITs - FTSE NAREIT All Equity REITs Index

The FTSE NAREIT All Equity REITs Index is an index of publicly traded REITs with 75% or greater of their gross invested book assets invested directly or indirectly in the equity ownership of real estate. As of January 2019, the index had 169 constituents. The average market capitalization was approximately \$6.198 billion; the median market capitalization was approximately \$2.710 billion.

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Important acronyms

ATRA – American Taxpayer Relief Act of 2012
CLT – Charitable Lead Trust
CRT – Charitable Remainder Trust
CST – Credit Shelter Trust
CSV – Cash surrender value
EOY – End of year
ESA – Education Savings Accounts
FLP – Family Limited Partnership
GRT – Grantor Retained Trust
GSTT – Generation-skipping transfer tax
HSA – Health Savings Account
IDGT – Intentionally Defective Grantor Trust
ILIT – Irrevocable Life Insurance Trust
IRD – Income in respect of a decedent
QDOT – Qualified Domestic Trust
QPRT – Qualified Personal Residence Trust
QTIP – Qualified Terminable Interest Property
RMD – Required minimum distribution
ROR – Rate of return
Rolling GRAT – Rolling Grantor Retained Annuity Trust
SOY – Start of year
TCJA – Tax Cuts and Jobs Act
TCLT – Testamentary Charitable Lead Trust
UGMA – Uniform Gift to Minors Act
UMD – Unlimited marital deduction
UTMA – Uniform Transfer to Minors Act

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Tax Considerations

The Tax Cuts and Jobs Act (TCJA) was introduced on November 2, 2017 and agreed upon by the congressional committee on December 15, 2017. The TCJA amended the Internal Revenue Code of 1986 and included major changes to tax elements for individuals, estates and businesses.

Currently, most individual and estate changes are scheduled to sunset on December 31, 2025 and revert to previous law on January 1, 2026. Changes to the business taxation were made permanent within the TCJA.

With the passage of the TCJA, tax brackets, thresholds and rates will change in 2018. The most noticeable of individual changes is the elimination of the personal exemptions, the elimination of the Pease limitation on itemized deductions, and the expansion of the Child Tax Credit.

Starting in 2018, the estate exemption was doubled and for 2018 it is scheduled to be \$11,180,000 per taxpayer. The 40% asset tax remains in the tax code.

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Disclaimer

Important: Please read this section carefully. It contains an explanation of some of the limitations of this report.

Important: *The calculations or other information generated by NaviPlan regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.*

Below is an outline of several specific limitations of the calculations of financial models in general and of NaviPlan specifically.

The Calculations Contained in This Report Depend in Part, on Personal Data That You Provide

The assumptions used in this analysis are based on information provided and reviewed by you. These assumptions must be reconsidered on a frequent basis to ensure the results are adjusted accordingly. The smallest of changes in assumptions can have a dramatic impact on the outcome of this analysis. Any inaccurate representation by you of any facts or assumptions used in this analysis invalidates the results.

This Report is Not a Comprehensive Financial Report and Does Not Include, Among Other Things, a Review of Your Insurance Policies

We have made no attempt to review your property and liability insurance policies (auto and homeowners, for example). We strongly recommend that in conjunction with this analysis, you consult with your property and liability agent to review your current coverage to ensure it continues to be appropriate. In doing so, you may wish to review the dollar amount of your coverage, the deductibles, the liability coverage (including an umbrella policy), and the premium amounts.

NaviPlan Does Not Constitute Legal, Accounting, or Tax Advice

This analysis does not constitute advice in the areas of legal, accounting or tax. It is your responsibility to consult with the appropriate professionals in those areas either independently or in conjunction with this planning process.

Circular 230: Any income tax, estate tax or gift tax advice contained within this document was not intended or written to be used for, and cannot be used for, the purpose of avoiding penalties that may be imposed.

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Discussion of the Limits of Financial Modeling

Inherent Limitations in Financial Model Results

Investment outcomes in the real world are the result of a near infinite set of variables, few of which can be accurately anticipated. Any financial model, such as NaviPlan, can only consider a small subset of the factors that may affect investment outcomes and the ability to accurately anticipate those few factors is limited. For these reasons, investors should understand that the calculations made in this analysis are hypothetical, do not reflect actual investment results, and are not guarantees of future results.

Results May Vary With Each Use and Over Time

The results presented in this analysis are not predictions of actual results. Actual results may vary to a material degree due to external factors beyond the scope and control of this analysis. Historical data is used to produce future assumptions used in the analysis, such as rates of return. Utilizing historical data has limitations as past performance is not a guarantee or predictor of future performance.

Outline of the Limitations of NaviPlan and Financial Modeling

Your Future Resources and Needs May Be Different From the Estimates That You Provide

This analysis is intended to help you in making decisions on your financial future based, in part, on information that you have provided and reviewed. The suggested asset allocation presented in this analysis is based, in part, on your answers to a risk tolerance questionnaire and may represent a more aggressive — and therefore more risky — investment strategy than your current asset allocation mix.

The calculations contained in the report utilize the information that you have provided and reviewed including, but not limited to, your age, tolerance for investment risk, income, assets, liabilities, anticipated expenses, and likely retirement age. Some of this information may change in unanticipated ways in the future and those changes may make NaviPlan less useful.

*NaviPlan Considers Investment in Only a Few Broad Investment Categories**

Where applicable, NaviPlan utilizes this information to estimate your future needs and financial resources and to identify an allocation of your current and future resources, given your tolerance for investment risk, to a few broad investment categories: large-cap equity, mid-cap equity, small-cap equity, international equity, emerging equity, bonds, and cash.

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In general and where applicable, NaviPlan favors the investment categories that have higher historical and expected returns. The extent of the recommended allocation to these favored investment categories is limited by the investor's disclosed tolerance for risk. In general, higher returns are associated with higher risk.

These broad investment categories are not specific securities, funds, or investment products and NaviPlan is not an offer or solicitation to purchase any securities or investment products. The assumed rates of return of these broad categories are based on the returns of indices. These indices do not include fees or operating expenses and are not available for investment. These indices are unmanaged and the returns are shown for illustrative purposes only.

It is important to note that the broad categories that are used are not comprehensive and other investments that are not considered may have characteristics that are similar or superior to the categories that are used in NaviPlan.

Refer to the Asset Allocation section of this report for details on return rate assumptions used throughout this analysis.

* Investment categories may not apply to Forecaster Assessments.

*NaviPlan Calculates Investment Returns Far Into the Future Using Morningstar Data**

For all asset class forecasts, Morningstar uses the building block approach to generate expected return estimates. The building block approach uses current market statistics as its foundation and adds historical performance relationships to build expected return forecasts. This approach separates the expected return of each asset class into three components: the real risk-free rate, expected inflation, and risk premia. The real risk-free rate is the return that can be earned without incurring any default or inflation risk. Expected inflation is the additional reward demanded to compensate investors for future price increases, and risk premia measures the additional reward demanded for accepting uncertainty associated with investing in a given asset class. Any calculation of future returns of any asset category, including any calculation using historical returns as a guide, has severe limitations. Changes in market conditions or economic conditions can cause investment returns in the future to be very different from returns in the past. Returns realized in the future can, in fact, be much lower, or even negative, for all or some of these asset categories and, if so, the calculations in NaviPlan will be less useful.

Any assets, including the broad asset categories considered in NaviPlan, that offer potential profits also entail the possibility of losses.

Important: The calculations or other information generated by NaviPlan® version 20.3 regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. These calculations are shown for illustrative purposes only because they utilize return data that may not include fees or operating expenses, and are not available for investment. If included, fees and other operating expenses would materially reduce these calculations. NaviPlan® provides general analysis and planning with non-specific recommendation language that does not qualify as investment advice. Specific investment recommendations found on this deliverable are solely created by the advisor and may materially change the advisor-client fiduciary relationship, and thus should be reviewed between the interested parties.

Furthermore, it is significant that the historical data for these investment categories does not reflect investment fees or expenses that an investor would pay when investing in securities or investment products. The fees and expenses would significantly reduce net investment returns and a calculation taking account of fees and expenses would result in lower expected asset values in the future.

Refer to the Asset Allocation section of this report for details on return rate assumptions used throughout this analysis.

* Investment categories may not apply to Forecaster Assessments.

NaviPlan Calculations Include Limited Accounting for Taxes

The federal and state income tax laws are extremely complex and subject to continuous change. NaviPlan has limited capability to model any individual's tax liability, and future tax laws may be significantly different from current tax laws. Any changes in tax law may affect returns for any given investment and make the calculations produced by NaviPlan less useful. The calculations contain limited support for the tax impact on transfers of money or redemptions of funds.

NaviPlan Calculations Do Not Include Fees and Expenses

The calculations utilize return data that do not include fees or operating expenses. If included, fees and other operating expenses would materially reduce these calculations. Recommendations included in the calculations to redeem funds from certain investments or transfer money to others do not account for fees and charges that may be incurred.

NaviPlan Calculations May Include Variable Products

Variable life insurance policies or deferred variable annuities are inherently risky and may be included in the calculations. The return rate assumptions used throughout this analysis do not relate to the underlying product illustrated. These returns should not be used as a proxy for actual performance as they may exaggerate the performance potential of the underlying investment accounts (subaccounts). Any calculations incorporating variable products are hypothetical and intended to show how the performance of the underlying subaccounts could affect the value and death benefit of the variable products; these calculations are not intended to predict or project investment results.

The rates of return have not been adjusted to include mortality and expense fees attributable to variable annuities. These fees, and their effects on asset growth, are accounted for as a monthly expense of the annuity contract and can be observed in applicable net worth reports.

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If a variable annuity included in this analysis contains a guaranteed minimum withdrawal rider, it is important to understand that if the contract value is greater than the guaranteed minimum withdrawal benefit once withdrawals begin, as an investor you will have paid for the rider and not actually used it.

Income taxes during the annuitization phase are accounted for in the calculations. See the section titled NaviPlan Calculations Include Limited Accounting for Taxes in this Disclaimer for further information on the tax methodology used.

Review of Advisor-Client Fiduciary Relationship or Information about Fiduciary Standards

NaviPlan's role in Financial Planning

NaviPlan provides general analysis and planning with non-specific recommendation language that does not qualify as investment advice and therefore does not create a fiduciary relationship. Specific investment recommendations found on this deliverable are solely created by the advisor and may materially change the advisor-client fiduciary relationship, and thus should be reviewed between the interested parties.

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