GOALS, OBJECTIVES, AND ASSUMPTIONS

FINANCIAL GOALS:
1. Establish a financial plan including educational and retirement needs
2. Optimize investment choices
3. Feel financially organized within the context of a long-term plan

FINANCIAL PLANNING OBJECTIVES:
1. Review resources for retirement and determine how those resources should be invested in order to meet retirement and educational goals.
2. Determine whether 2nd mortgage should be paid off or maintained.
3. Ensure short-term cash goals are met, including:
   a. Emergency fund consisting of 6 months' expense needs
   b. Adoption expenses for 2 children at $36,000 per child
   c. A new car for Susan when the babies are brought home
4. Design portfolio and provide investment recommendations encompassing David and Susan's current accounts and retirement accounts at employers.

ASSUMPTIONS:
1. In terms of retirement:
   a. David retires from job at age 50, and works at a less stressful job – possibly consulting- until Susan retires. David's "retirement" income will drop to $96,000 per year during this period.
   b. Both Susan and David retire when Susan reaches age 60, although they would prefer to retire in their mid-50s.
   c. Retirement living expense is assumed to be $132,000 per year.
2. Current educational needs for the children are assumed to include only college, and specifically only an in-state college. At this point, planning is for 2 children.
3. Annual plan additions are broken down as follows (including employer match where applicable):
   a. David's 401k $23,750
   b. University 403b $1,920
   c. Clinic 403b $23,750
   d. After-tax contributions $48,000
4. Social security income is reduced by half versus current projections.

OBSERVATIONS AND RECOMMENDATIONS:

<u>Financial Goals</u>
Retirement
Given David and Susan' relatively young age and high earning potential, the plan as outlined above has a high probability of success in spite of a high retirement income need and a somewhat early retirement. We would note, however, that in order to maintain a reasonably

probability of success, we recommend fully retiring a few years later than David and Susan have indicated would be ideal. Because of their high lifetime earning potential and retirement income needs, we recommend a more aggressive portfolio invested 80% in equities and 20% in cash and fixed income.

Although the probability of success appears high, the following are critical factors:

- Real return in line with that historically earned by an aggressive portfolio.
- High ongoing savings as outlined above

Note that, as outlined below, we assume after-tax savings are decreased by $24,000 in 2013, as those funds will be diverted to educational needs as outlined below. Additionally, the remaining $24,000 in after-tax savings will cease in 2021, when David moves to a less stressful lower paying job.

Education
As with retirement income needs, educational needs also have a high likelihood of being met. However, we recommend establishing a 529 plan once the adoption is complete. Half of the taxable savings - or $24,000 - would be used to fund these 529 plans annually.

<u>Insurance</u>
Life Insurance
In examining current income, per the most recent budget Susan provided, total annual cash needs are as follows:

Net Expenses	$72,000
Tax on Susan's Income	$36,400
Tax on David's Income	$63,600

Should either David or Susan pre-decease the other, we assume that additional childcare assistance would be needed. In-home care would likely be the costliest option, and we would estimate the cost to be approximately $40,000 per year, an amount which is roughly equal to their monthly mortgage. Given that, we recommend putting a policy in place to pay down the mortgage, total expenses would be as follows:

	Susan	**David**
Net Expenses	$32,000	$32,000
Tax on income	$36,400	$63,600
Childcare	$40,000	$40,000
Total	**$108,400**	**$135,600**

David's income would allow him to cover expenses and continue to make planned savings contributions to both his 401k and the planned after-tax contributions. Susan would also be able to continue to make her pre-tax contributions, although the rate of her after-tax contributions would decrease. In either case, the total savings would be roughly equivalent, and in both cases the probability of meeting the primary financial goal - retirement - is acceptable, although we would prefer greater probability in the case of Susan' survivorship.

Based on the above, Susan and David would need coverage equal to their mortgage, plus coverage to provide for education. The total of the two obligations is roughly $650,000. David's coverage falls short of this amount, while Susan's coverage exceeds it slightly. Based on this, and to increase the probability of success of Susan' survivorship, we would recommend David purchase an additional $750,000 of term insurance, which can be purchased as layered policies. One last point we would note here is that the total net living expense seems somewhat low compared to the average for those in situations similar to that of Susan and David. Given that our insurance recommendations are predicated on this lower expense need assumption, any change to that assumption would necessitate a change in insurance coverage.

Disability Insurance
Both Susan and David have long-term disability policies provided via their employers. While the argument could be made for additional disability insurance held independently both for portability and for increased coverage, Susan and David have made clear they do not want to incur the additional cost.

Umbrella Insurance
Susan and David do not currently have umbrella insurance. While the limits of liability on their homeowner's and auto policies currently roughly equal their net worth, given that their net worth is rapidly increasing, we would recommend looking into umbrella coverage.

<u>Taxes</u>
Susan and David are working to minimize taxes via making the maximum contributions to their retirement plans. Further opportunity for sheltering income will likely be provided via David's deferred compensation plan, and he should explore the plusses and minuses of this plan thoroughly. Finally, Susan's employer does offer an HSA option for healthcare coverage, and this may well be the best option although it's difficult to project at this point given that the pending adoption increases the uncertainty of healthcare spending a great deal.

<u>Estate</u>
Although Susan and David have a will and powers-of-attorney in place, once the adoption is complete, it is imperative that they update their estate documents.

Portfolio Analysis and Investment Recommendations
Please see the attached investment policy statement. Investment recommendations will follow once David and Susan determine whether they want to work under a retainer arrangement or whether they'd prefer to handle their investments on their own.

NEXT STEPS:

1. David and Susan to implement trades we recommended in each of their portfolio accounts.
2. Establish 529 plans once adoption is complete.
3. Increase life insurance coverage on David.
4. Consider adding umbrella coverage.
5. Explore option of contributing to David's deferred comp plan as opposed to continuing after-tax savings for retirement.
6. Once healthcare costs are clearer, consider HSA healthcare plan option.
7. Update estate documents when adoption is complete.