

# Progress Report



Frank and Kathy Sample-Accumulator  
Hartford, Connecticut

**PREPARED BY:**

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YOUR RECOMMENDED PLAN: JUNE 1, 2009

YOUR REVIEW: MAY 31, 2010



# Table of Contents

- Introduction .....4
- Goal Achievement.....5
- Net Worth .....8
- Cash Flow .....9
- Asset Allocation ..... 11
- Conclusion ..... 12
- Appendix - Probability Analysis Assumptions..... 13
- Appendix - Probability Analysis (Retirement) ..... 14
- Tax Considerations ..... 15
- Important Terminology ..... 16
- Disclaimer ..... 19

# Introduction

## Periodic review of your financial plan

Financial planning can be a life-long process that assists you in taking control of your financial future. By setting financial goals, developing and implementing financial strategies, and monitoring progress on a regular basis, the likelihood of achieving your results is greatly increased.

Even the best financial plan must be monitored on a regular basis to make sure you are continuing in the right direction. Changes in your personal circumstances, tax laws, and economic circumstances may have an important impact on your financial plan and may affect your ability to reach your goals.

Together, on June 1, 2009, we prepared a financial plan that identified your financial goals and priorities. As an integral part of your plan, we outlined financial strategies to help you reach your goals.

Using your financial plan as a reference point, and the data that you have provided regarding your current financial situation as of **May 31, 2010**, we have performed a review of your plan. This review assesses your progress in meeting the financial objectives identified in your financial plan and identifies adjustments that should be made to keep you on track.

As you review this report, consider the following terminology:

**Your Initial Plan** - represents information initially provided at the conception of your financial plan on June 1, 2009.

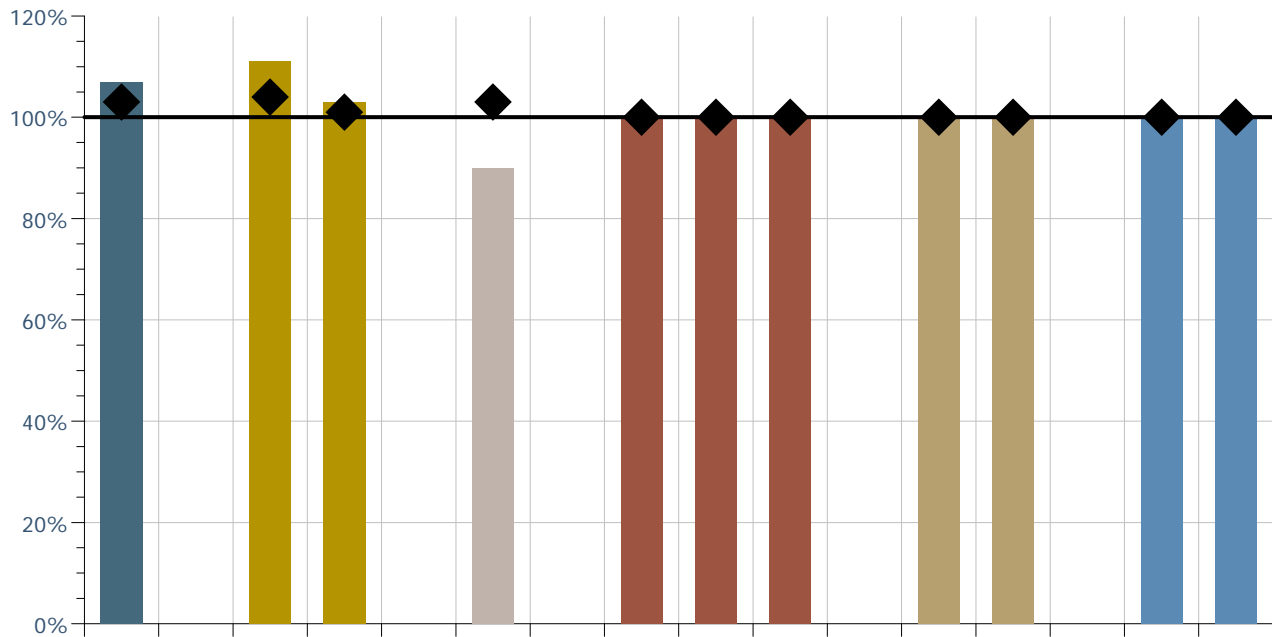
**Your Recommended Plan** - represents financial strategies identified to help you reach your goals as a result of the information provided for your initial financial plan on June 1, 2009.

**Your Review** - represents updated information provided as part of the review of your financial plan on May 31, 2010.

Keep in mind that any changes in your personal or financial situation that require an amendment or modification of your goals and objectives will warrant the creation of a new financial plan, in which we will develop and implement financial strategies based on your revised goals and objectives.

# Goal Achievement

The *Overall Goal Achievement* illustrates the percentage of each goal that may be covered based on the calculation of the capital and savings as of Your Review. In the *Overall Goal Achievement* Your Review includes the implementation of all suggested asset mixes. It indicates your increased or decreased ability to achieve your goals when compared to the calculations calculated in Your Recommended Plan.



	Goal Description	Goal Amount from Your Recommended Plan	Goal Achievement			Status
			Your Recommended Plan	Your Review	Increase/Decrease (%)	
■	Retirement	\$123,720/yr	103%	107%	4%	On track
■	James' Education Goal	\$15,000/yr	104%	111%	7%	Opportunity
■	Tasha's Education Goal	\$15,000/yr	101%	103%	2%	On track
■	Fifth-Wheel Trailer	\$35,000	103%	90%	-13%	Setback
■	Life Insurance (Frank dies)	\$105,888	100%	100%	0%	On track
■	Life Insurance (Kathy dies)	\$69,488	100%	100%	0%	On track
■	Life Insurance (Frank and Kathy die)	\$0	100%	100%	0%	On track
■	Disability Insurance (Frank)	\$3,256/mth	100%	100%	0%	On track
■	Disability Insurance (Kathy)	\$5,846/mth	100%	100%	0%	On track
■	Long Term Care Insurance (Frank)	\$324/day	100%	100%	0%	On track
■	Long Term Care Insurance (Kathy)	\$212/day	100%	100%	0%	On track

Values have been updated based on calculations or other information generated or obtained in the plan. Original values you provided may have changed due to those updates.

The ♦ in the above graph represent the *Goal Achievement* percentage from the recommendations in Your Recommended Plan

Important: The calculations or other information generated by NaviPlan® version 12.0 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. See the Disclaimers section for more information.

The following ranges determine whether each goal is on track and what you are working towards, or whether action should be taken to adjust your financial strategies to achieve your goals. Note that the *Status* considers the ongoing progression towards your goal achievement and will continually evolve.

## Opportunity

If the existing strategies in Your Recommended Plan or Your Review allow you to achieve your goal, and if there is an increase of greater than 5% in goal achievement, this is considered an opportunity. The goal may be overfunded and present an occasion for further planning. We will examine other strategies that you may be able to apply.

## Setback

If the existing strategies in Your Review do not allow you to achieve your goal, and if there is a decrease of greater than 5% in goal achievement, this is considered a setback. The goal may not be adequately funded. We will review possible strategies to help remedy the problem.

## On track

If the existing strategies in Your Review have not yet allowed you to achieve your goal, but you are progressing towards the goal with limited difficulty then we recommend that you carry on with the strategies in your plan.

## Retirement

Congratulations, based on the updated information in Your Review, your ability to cover retirement needs is **on track**.

## James' Education Goal

Based on the updated information in Your Review, your ability to cover James' Education Goal represents an **opportunity**. Your ability to cover education expenses has increased by **7%** for James' Education Goal.

You may wish to consider one of the following for James' Education Goal:

- Support the goal education costs at 111% (\$16,743) per year
- Support the goal education costs at 100% (\$18,585) and use the excess of \$3,585 for another goal experiencing a **setback**
- Save the additional amount

## Tasha's Education Goal

Congratulations, based on the updated information in Your Review, Tasha's Education Goal is **on track**.

## Fifth-Wheel Trailer

Based on the updated information in Your Review, your ability to cover your Fifth-Wheel Trailer represents a **setback**. Your ability to cover major purchase expenses has **decreased by 13%** for Fifth-Wheel Trailer.

You may wish to consider one of the following for your Fifth-Wheel Trailer:

- Support the goal at 90% (\$31,500)
- Save an additional \$37 per month
- Invest a lump sum today of \$2,857

## Life Insurance if Frank dies

Congratulations, based on the updated information in Your Review, your ability to cover life insurance needs if Frank dies is **on track**.

## Life Insurance if Kathy dies

Congratulations, based on the updated information in Your Review, your ability to cover life insurance needs if Kathy dies is **on track**.

## Life Insurance if Frank and Kathy die

Congratulations, based on the updated information in Your Review, your ability to cover life insurance needs if Frank and Kathy die is **on track**.

## Disability Insurance if Frank is disabled

Congratulations, based on the updated information in Your Review, your ability to cover disability needs should Frank become disabled is **on track**. Your ability to cover expenses should Frank become disabled has remained consistent.

## Disability Insurance if Kathy is disabled

Congratulations, based on the updated information in Your Review, your ability to cover disability needs should Kathy become disabled is **on track**. Your ability to cover expenses should Kathy become disabled has remained consistent.

## Long-term care if Frank needs long-term care

Congratulations, based on the updated information in Your Review, your ability to cover long-term care needs should Frank need long-term care is **on track**. Your ability to cover expenses should Frank need long-term care has remained consistent.

## Long-term care if Kathy needs long-term care

Congratulations, based on the updated information in Your Review, your ability to cover long-term care needs should Kathy need long-term care is **on track**. Your ability to cover expenses should Kathy need long-term care has remained consistent.

# Net Worth

Net worth is the total amount left over after you subtract your liabilities (what you owe) from your assets (what you own).

In preparing your initial analysis on June 1, 2009, we used current account valuations, applicable assumptions based on historical data, and your evaluations of your future situation.

Net worth assumptions change over time as your personal circumstances, tax laws, and economic conditions evolve. In order to monitor and evaluate your assumptions, we have prepared the following Net Worth Statement as of Your Review, May 31, 2010. It shows the original asset and liability values in Your Initial Plan along with their updated values as of Your Review, May 31, 2010.

## NET WORTH STATEMENT

	Your Initial Plan	Your Review	%	How
	2009	2010	Change	Updated?
<b>Non-Qualified Assets</b>				
Fleet Bank Savings	15,000	15,374	2.5%	Manually
330 Main St.	125,000	127,500	2.0%	Manually
Joint Savings	100,000	105,669	5.7%	Manually
Fifth-Wheel Trailer Savings	10,000	11,608	16.1%	Manually
Ridgefield Bank Savings	35,000	35,866	2.5%	Manually
Tasha's Education Goal Fund	0	14,068		Manually
Retirement Fund	0	6,960		Manually
James' Education Goal Fund	0	1,841		Manually
Fifth-Wheel Trailer Fund	0	979		Manually
<b>Total Non-Qualified Assets</b>	<b>285,000</b>	<b>319,865</b>	<b>12.2%</b>	
<b>Qualified Assets</b>				
Frank's IRA	90,000	89,900	-0.1%	Manually
Frank's 401(k)	200,000	204,693	2.3%	Manually
James' Education Plan	35,000	42,739	22.1%	Manually
Kathy's IRA	40,000	39,975	-0.1%	Manually
Kathy's 401(k)	200,000	205,265	2.6%	Manually
Tasha's Education Plan	27,000	31,404	16.3%	Manually
<b>Total Qualified Assets</b>	<b>592,000</b>	<b>613,975</b>	<b>3.7%</b>	
<b>Lifestyle Assets</b>				
Personal Use Property	100,000	102,000	2.0%	Manually
Residence	400,000	408,000	2.0%	Manually
<b>Total Lifestyle Assets</b>	<b>500,000</b>	<b>510,000</b>	<b>2.0%</b>	
<b>Total Assets</b>	<b>1,377,000</b>	<b>1,443,840</b>	<b>4.9%</b>	
<b>Liabilities</b>				
Line of Credit	(15,000)	(15,000)	0.0%	
Mortgage	(300,000)	(293,832)	-2.1%	Manually
<b>Total Liabilities</b>	<b>(315,000)</b>	<b>(308,832)</b>	<b>-2.0%</b>	
<b>Accumulated Surplus/Deficit</b>	<b>0</b>	<b>22,969</b>		
<b>Total Net Worth</b>	<b>\$1,062,000</b>	<b>\$1,157,977</b>	<b>9%</b>	

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# Cash Flow

Cash flow management takes into account all sources of incomes and expenses. Your cash flow surplus or deficit is determined by adding all of your cash inflows, then subtracting all of your cash outflows, which include lifestyle expenses, savings, and taxes.

We have prepared the following *Cash Flow Details* report as of Your Review, May 31, 2010. It shows the original cash flows in Your Initial Plan, June 1, 2009 along with their updated values as of Your Review, May 31, 2010. Based on the information you have provided, you currently have a cash flow surplus of \$23,091. This is a **49.6% decrease** from Your Initial Plan.

## Cash Flow Details Report

	Your Initial Plan	Your Review	
	2009	2010	% Change
<b>Cash Inflows</b>			
<b>Employment Inflows</b>			
Salary	\$170,000	\$170,000	+0.0%
Bonus	\$0	\$7,500	
<b>Total</b>	<b>\$170,000</b>	<b>\$177,500</b>	<b>+4.4%</b>
<b>Investment Inflows</b>			
<b>From Assets</b>			
Interest	\$6,998	\$7,363	+5.2%
Dividends	\$94	\$354	+277.8%
Capital Gains (Short Term)	\$173	\$699	+303.4%
Rental	\$10,000	\$10,000	+0.0%
<b>Total</b>	<b>\$17,265</b>	<b>\$18,416</b>	<b>+6.7%</b>
<b>Total Cash Inflows</b>	<b>\$187,265</b>	<b>\$195,916</b>	<b>+4.6%</b>
<b>Cash Outflows</b>			
<b>Lifestyle Expenses</b>			
Regular	\$42,000	\$48,000	+14.3%
Mortgage Interest-Deductible	\$17,832	\$17,832	+0.0%
Mortgage Principal	\$6,168	\$6,168	+0.0%
Loan Interest-Non Deductible	\$900	\$900	+0.0%
<b>Total</b>	<b>\$66,900</b>	<b>\$72,900</b>	<b>+9.0%</b>
<b>Taxes</b>			
Federal Tax	\$31,350	\$33,985	+8.4%
State Tax	\$7,279	\$7,892	+8.4%
Social Security Tax - employment	\$10,540	\$11,005	+4.4%
Medicare Tax - employment	\$2,465	\$2,574	+4.4%
<b>Total</b>	<b>\$51,634</b>	<b>\$55,456</b>	<b>+7.4%</b>
<b>Miscellaneous Expenses</b>			
Disability Insurance Premiums	\$1,680	\$2,400	+42.9%
Life Insurance Premiums	\$480	\$1,320	+175.0%
Long-term Care Insurance premiums	\$1,260	\$1,260	+0.0%
Tax Deductible Property Taxes	\$1,195	\$1,195	+0.0%
<b>Total</b>	<b>\$4,615</b>	<b>\$6,175</b>	<b>+33.8%</b>
<b>Non-Qualified Contributions and Reinvestments</b>			
Regular	\$7,880	\$31,445	+299.1%
<b>Investment Expenses</b>			
Landlord's Property Expenses	\$850	\$850	+0.0%

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	Your Initial Plan	Your Review	
	2009	2010	% Change
<b>Qualified Contributions</b>			
401(k) Contributions	\$7,200	\$3,600	-50.0%
529 Plan Contributions	\$2,400	\$2,400	+0.0%
<b>Total</b>	<b>\$9,600</b>	<b>\$6,000</b>	<b>-37.5%</b>
<b>Total Cash Outflows</b>	<b>\$141,479</b>	<b>\$172,826</b>	<b>+22.2%</b>
<b>Current Surplus/(Deficit)</b>	<b>\$45,786</b>	<b>\$23,091</b>	<b>-49.6%</b>
<b>Previous Surplus/(Deficit)</b>	<b>\$0</b>	<b>\$0</b>	<b>+0.0%</b>
<b>Ending Surplus/(Deficit)</b>	<b>\$45,786</b>	<b>\$23,091</b>	<b>-49.6%</b>

Values have been updated based on calculations or other information generated or obtained in the plan. Original values you provided may have changed due to those updates.

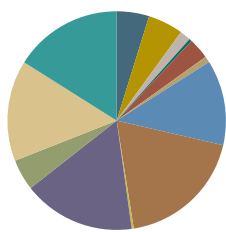
# Asset Allocation

Asset allocation is the process of aligning your risk tolerances, financial objectives, and investment time horizon to applicable investment portfolios. Changes in market conditions can greatly affect the performance of your investment portfolio and the success of your financial goals. It is important to review your asset allocation mix periodically to ensure that you are maximizing the return of your investment portfolio given your personal risk tolerance and investment time horizons.

## Asset Allocation as of Your Review

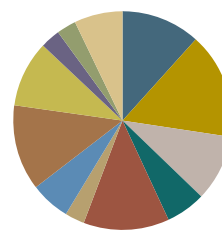
Based on our analysis of your current asset mix as of May 31, 2010, you may be incurring less risk than your risk tolerance indicates you would be comfortable with in your investment portfolio. We recommend rebalancing your portfolio to more closely represent your risk tolerance and time horizon.

### Your Review's Current Asset Mix



Rate of Return	6.05%
Standard Deviation	7.82%

### Your Review's Suggested Asset Mix Moderate



Rate of Return	8.10%
Standard Deviation	13.01%

The table below provides a breakdown of the percentages and dollar values for each asset class in the current and suggested portfolio. The *Change* column indicates the rebalancing required to reach the suggested asset mix.

Asset Class	Your Review's Current Asset Mix		Change		Your Review's Suggested Asset Mix	
	(%)	(\$)	(%)	(\$)	(%)	(\$)
Large Cap Growth Equity	4.8	34,821	+6.9	+50,649	12.0	87,510
Large Cap Value Equity	6.0	44,103	+9.6	+69,854	16.0	116,677
Mid Cap Equity	1.5	10,726	+8.3	+60,499	10.0	72,925
Small Cap Equity	0.4	2,861	+5.5	+39,874	6.0	43,755
International Equity	6.9	50,618	+5.8	+41,975	13.0	94,803
Emerging Markets Equity	1.0	7,302	+1.9	+14,066	3.0	21,878
Long Term Bonds	15.4	112,192	-9.5	-69,457	6.0	43,755
Intermediate Term Bonds	23.1	168,207	-10.4	-75,614	13.0	94,803
Short Term Bonds			+9.8	+71,225	10.0	72,925
High Yield Bonds	18.7	136,592	-15.8	-115,224	3.0	21,878
International Bonds	5.5	40,252	-2.6	-18,884	3.0	21,878
Cash	16.7	121,576	-9.5	-68,963	5.0	36,463
<b>Total</b>	<b>100.0</b>	<b>729,250</b>	<b>+0.0</b>	<b>+0</b>	<b>100.0</b>	<b>729,250</b>

**Note:** The reallocation table above does not reflect the tax effects that may occur when reallocating your assets; these tax effects are accounted for at the end of the year.

# Conclusion

We have prepared Your Review in conjunction with information that you have provided regarding your current financial situation as of **May 31, 2010**. Progress towards your financial goals and objectives has been evaluated by comparing your current information to the data outlined in Your Recommended Plan created on **June 1, 2009**. For goals that are not on track, we have identified possible strategies that should be considered to keep you on course with meeting your goals.

Now that you have an overview of your financial progress, where do you go from here? These are our recommendations:

- **Review this document** – Ensure you understand the information contained in the report. Be sure to ask us questions on areas that need clarification.
- **Assess the original objectives** – Are they realistic? Have they changed since the implementation of Your Recommended Plan? If significant changes to your personal or financial situation call for adjustments to your goals and objectives, consider a revision of your analysis which can include the development and implementation of new financial strategies. We will work together in this process.
- **Review various strategies** – This will help you stay on track with achieving your goals. Determine a time frame for these strategies.
- **Decide on a course of action** – Together, we will evaluate the alternative that is consistent with your objectives and your financial ability.

Personal financial management is a continuous process. Your goals, tax laws, and market conditions change over time. Since decisions are made based on the best information available at the time, your personal analysis must evolve as well. The most important thing is to have a plan with which you can work. Review it regularly – at least once a year.

# Appendix - Probability Analysis Assumptions

The *Plan Probability* graph illustrates the goal coverage percentage for each trial that was generated. When NaviPlan generates the probability analysis it goes through the entire plan from the current plan date through to the set life expectancy date and varies return rates on available assets based on their anticipated average rates of return and standard deviations. NaviPlan then determines the resources available. At this point, NaviPlan determines if the available resources are adequate to cover the need (essentially, the goal expense) and it draws down on the available assets where appropriate. NaviPlan displays its findings by giving a percentage that illustrates how much of the goal is covered. The percentage equals the *ability to cover the total needs* divided by *the total needs*, where both *the ability to cover total needs* and *the total needs* are adjusted for inflation.

In this assessment, the *% Total Needs Covered By Total Resources* option is shown, and NaviPlan determines if the resources available will cover the total needs of the goal, where *total needs* equals all fixed and discretionary expenses (fixed expenses may also include implicit expenses such as loan payments, life insurance premiums and income taxes).

## Assumptions

The following information lists the assumptions used during the generation of the *Scenario Probability* results located in the *Probability Analysis* section.

**Life Expectancy** is **not** randomized. All projections will end at age 90 for Frank and age 90 for Kathy.

**Full Deficit Coverage** is not active for the plan. This means that in the pre-retirement period of the analysis, assets are not redeemed to cover periodic expenses and taxes.

The **Number of Projections** is the number of trials of your analysis that the software projects using random rates of return. A total of 500 trials have been generated.

**Rate of Return Randomization** indicates that a random number was generated (this process is repeated with a different random number for every projection) to determine a rate of return based on the standard deviation for each asset class assigned to your accounts. (The assumption is that all returns are normally distributed. This means that approximately 68% of the results are within one standard deviation above or below the *Rate of Return* and approximately 95% of the results are within two standard deviations). This calculation is repeated for every account in the analysis.

**Please Note:** The results of each projection will vary with each use and over time.

**IMPORTANT:** The projections or other information generated by *Scenario Probability* Simulation regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

# Appendix - Probability Analysis (Retirement)

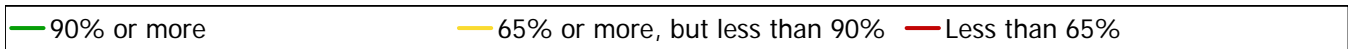
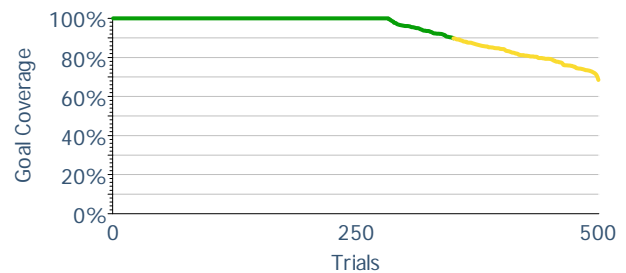
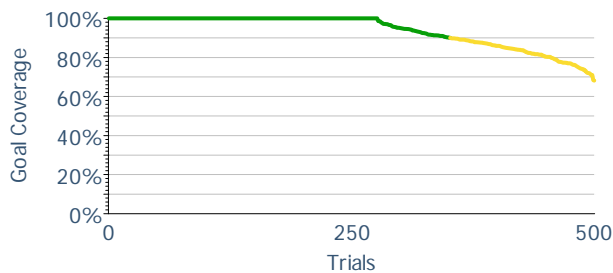
Based on the assumptions that have been made to determine your retirement plan, it is important to consider the probability of achieving the planned distributions if, due to the variability in the market, the assumptions for market growth on your retirement assets varies over the course of your retirement years.

The following graphs illustrate the goal coverage percentage for each probability trial that was generated for your retirement goal. The graph on the left displays regenerated results using the facts and assumptions from Your Recommended Plan with updated tax and market assumptions, as of June 1, 2009. The graph on the right represents Your Review's results, based on your current information as of May 31, 2010. The results are generated by varying the return rates on available assets and by determining if the available resources are adequate to cover the total needs.

## Goal Coverage

**Your Recommended Plan as of June 1, 2009**

**Your Review as of May 31, 2010**



For the probability analysis, 500 trials were run. The results are as follows:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• In 351 trials 90% or more of the goal was covered</li> <li>• In 149 trials 65% or more, but less than 90%, of the goal was covered</li> <li>• In 0 trials less than 65% of the goal was covered</li> </ul> | <ul style="list-style-type: none"> <li>• In 350 trials 90% or more of the goal was covered</li> <li>• In 150 trials 65% or more, but less than 90%, of the goal was covered</li> <li>• In 0 trials less than 65% of the goal was covered</li> </ul> |
|---|---|

For details on the *Plan Probability* graph assumptions, refer to the Probability Assumptions section at the beginning of the Appendix section.

# Tax Considerations

## As Legislated

On May 26, 2001, the U.S. Congress adopted the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 (the Act). This Act includes the largest tax cut in more than 20 years. It also provides for major changes to estate tax, gift tax, and generation-skipping transfer tax (GSTT) starting in the year 2002 and continuing through 2010.

The changes to personal and estate taxes (including credits, exemptions, etc.) are being phased in starting in 2002 and continue through 2009. In the year 2010, the estate tax and GSTT are repealed for one year. The gift tax, however, continues with a \$1 million exemption.

Gifts granted during the years 2002-2009, inclusive, are taxed under the same rate table as estates. Under the Act, the applicable exclusion amount for gift tax purposes is \$1 million and will remain at that amount. The maximum gift tax rate is reduced to 35% in 2010. The applicable exclusion amount for estate tax purposes does not apply in the year 2010 as the estate tax is scheduled for repeal.

The biggest change is a new carryover basis system that replaces the estate tax. Up to and including 2009, assets receive a step-up in basis equal to the fair market value of the asset at the time of death. In 2010 during estate tax repeal, assets do not automatically receive a step-up in basis at death. The effect of this is an increase in capital gains tax. However, there are provisions for a limited amount of assets to receive a step-up. Up to \$3 million of assets transferred to a spouse and \$1.3 million of assets transferred to *Other* are eligible for the increased basis at your death. Under this option, the new carryover basis system is applicable for only the one year that the estate tax is repealed.

On May 28, 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) was enacted. The JGTRRA provides an acceleration of various income tax provisions of the 2001 Act. In addition, the JGTRRA provides a reduction in the maximum long-term capital gains tax rate and preferential tax treatment for dividend income until 2008. The Tax Increase Prevention and Reconciliation Act of 2005 further extends the provision until the end of 2010, after which the provisions will revert to prior law.

**Because of the sunset clause, the provisions in the Act are effective only to the end of 2010. In 2011, the tax laws revert to those in place in 2001, except where extended by the Pension Protection Act of 2006. For the purposes of your plan, we have illustrated the law as legislated, with one year of estate tax repeal, and the tax law reverting back to 2001 law in the year 2011.**

On August 17, 2006, the Pension Protection Act (PPA) of 2006 was signed into law. The PPA permanently extends certain provisions of the EGTRRA. Specifically, the PPA makes permanent contribution limit increases to IRAs and certain employer-sponsored plans, permanently extends the availability of Roth 401(k) and Roth 403(b) plans, and permanently extends the non-taxability of qualified 529 plan distributions.

# Important Terminology

## **Your initial plan**

Your Initial Plan represents information provided and reviewed by you as of your plan's creation.

## **Your recommended plan**

Your Recommended Plan represents your implemented analysis, which identifies your financial goals and priorities, and outlines financial strategies to help you reach your goals. It serves as a reference point for evaluating your progress toward meeting your financial objectives.

## **Your review**

Your Review consists of updated information reviewed by you as of your review date. It represents your current financial situation and serves as the basis for evaluating your progress toward meeting your financial goals as outlined in Your Recommended Plan.

## **Rate of return (current asset mix)**

The dollar-weighted average rate of return of the assets in the current asset mix.

## **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.

## **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.

## **Investment profile**

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

## **Portfolio**

The combination of assets a client owns and that are considered in this plan to fund the client's goal.

## **Time horizon**

The length of time desired 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 be a further division within an asset class of assets such as a mix of small, medium, and large company stock assets.

## **Current asset mix**

The combination of asset classes assigned to the assets included in the clients' current financial position.

## **Suggested asset mix**

The asset mix that is derived based on the investment profile as determined by answers to a risk tolerance questionnaire.

## **Fixed expenses**

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

## **Asset class**

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

## **Large Cap Growth Equity**

Domestic U.S. equity stocks representing securities with a greater-than-average growth orientation, which tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields, and higher forecasted growth values.

## **Large Cap Value Equity**

Domestic U.S. equity stocks representing securities with a less-than-average growth orientation, which generally have lower price-to-book and price-earnings ratios, higher dividend yields, and lower forecasted growth values.

## **Mid Cap Equity**

Domestic U.S. equity stocks representing the Russell Mid Cap Index, which consists of the smallest 800 companies in the Russell 1000 index as ranked by total market capitalization.

## **Small Cap Equity**

Domestic U.S. equity stocks representing the Russell 2000 Index, which is a small-cap index consisting of the smallest 2,000 companies in the Russell 3000 Index.

## **International Equity**

Stocks representing the MSCI EAFE (Europe, Australasia, Far East) Index, which is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada.

## **Emerging Markets Equity**

Equities representing the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.

## **Long-Term Bonds**

Bonds where the total returns are calculated for each year on a single bond issued by the U.S. Government with a term of approximately 20 years, and a reasonably current coupon with returns that did not reflect potential tax benefits, impaired negotiability, or special redemption or call privileges.

## **Intermediate-Term Bonds**

These bonds represent one-bond portfolios used to construct the intermediate-term index. The bond chosen each year is the shortest non-callable bond with a maturity of not less than five years, and it is "held" for the calendar year.

## **Short-Term Bonds – U.S. 1-Year Government Bonds**

Bonds represent yields on Treasury securities at "constant maturity" and are interpolated by the U.S. Treasury from the daily yield curve. This curve relates the yield on a security to its time to maturity, and is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

## **High-Yield Bonds**

Bonds representing the universe of fixed rate, noninvestment grade debt.

## **International Bonds**

Bonds reflecting the returns provided by investment in international (non-U.S.) fixed income securities.

## **Cash**

Cash reflects the returns provided by short-term fixed income instruments. The index is based on the U.S. 3-month Treasury bills.

# 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.

## ***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 proposed 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*

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.

In general, 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.

### *NaviPlan Calculates Investment Returns Far Into the Future Using Ibbotson Data*

For all asset class forecasts, Ibbotson 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.

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.

#### *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.

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.

# Delivery Acknowledgement

We, Frank and Kathy Sample-Accumulator, have reviewed and accept the information contained within this plan and understand the assumptions associated with it. We believe that all information provided by us is complete and accurate to the best of our knowledge. We recognize that performance is not guaranteed and that all future calculations are included simply as a tool for decision-making and do not represent a forecast of our financial future. This analysis should be reviewed periodically to ensure that decisions made continue to be appropriate, particularly if there are changes in family circumstances, such as an inheritance, birth of a child, death of a family member, or material change in incomes or expenses.

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Frank Sample-Accumulator

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Kathy Sample-Accumulator

Date:

## Note

*This analysis has been prepared based on the information provided. There has been no attempt to verify the accuracy or completeness of this information. As the future cannot be forecast with certainty, actual results will vary from these calculations. It is possible that these variations may be material. The degree of uncertainty normally increases with the length of the future period covered.*