

The *Preliminary Analysis* report details the clients' financial goals and their **current** financial position, and then analyzes both to determine whether your clients can meet their goals. Use this report to form the basis for your recommendations in your proposed plan. For a complete version of this report, click [here](#).

# NaviPlan

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## *Preliminary Analysis*

**Joe and Jane Sample Client**

Ridgefield, Connecticut

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Hamilton & Associates

July 21, 2009

A professional cover page  
personalized for your clients.



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# Disclaimer

Disclaimer information to address compliance requirements.

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

**IMPORTANT: *The projections 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 a discussion of several specific limitations of the projections of financial models in general and of NaviPlan® specifically.**

*The Projections Contained in this Report are, in part, dependent on Personal Data that You Provide*

The assumptions used in this financial plan are based on information provided and reviewed by you. Please review all assumptions in the Appendix - Plan Data Summary section before reviewing the rest of the report to ensure the accuracy and reasonableness of the assumptions. Those 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 financial plan. Any inaccurate representation by you of any facts or assumptions used in this financial plan 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 financial plan, 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 financial plan 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 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 projections made in this financial plan are hypothetical, do not reflect actual investment results, and are not guarantees of future results.

# Important Terminology

Common terms are defined for reference when reading the report.

## ***Current Plan***

The Current Plan consists of information provided and reviewed by you.

## ***Assumed rate of return (current)***

The dollar-weighted average rate of return of the assets in the Current Plan. A goal-based assumed rate of return (current) represents the dollar-weighted average rate of return of the assets linked to that particular goal.

## ***Assumed rate of return (proposed)***

The dollar-weighted average rate of return of the assets in the Proposed Plan based on the assumptions defined in the proposed/recommended scenarios. Based on the assumptions, the rate of return may or may not equal the proposed rate of return. A goal-based assumed rate of return (proposed) represents the dollar-weighted average rate of return of the assets linked to that particular goal based on the assumptions defined in the proposed/recommended scenario.

## ***Proposed rate of return***

The rate of return calculated based on your risk profile as determined by your answers to a risk tolerance questionnaire. Based on the assumptions defined in the proposed/recommended scenarios, this return may or may not equal the assumed rate of return (proposed).

## ***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 current plan.

Congratulations Joe and Jane, you have taken the most important step in the financial planning process – getting started! Many people believe that financial planning is only for a very small number of very wealthy families. This is not true. All households need to manage their financial resources carefully.

## ***Why develop a financial plan?***

Most people find that managing their finances is a challenge. We face many opportunities, obstacles and hazards along the way. We struggle with the anxiety relating to our personal financial circumstances. Also, many families are too busy dealing with the challenges of day-to-day life to think about next month, let alone retirement, which may be twenty years or more into the future!

Let us think a moment about a simple short-term goal. Would you go on a vacation without doing some basic planning – where you want to go, how you're going to get there, how much money you need, what items you should pack?

Even with the best of efforts in preparing your vacation, you will have to make adjustments along the way.

Financial planning is no different. By developing a financial plan, you and your family will

- have a better understanding of your current financial situation
- determine attainable retirement, education, insurance, and other financial goals
- review goals, funding strategies, and alternatives where goals have to be compromised
- have the necessary financial resources set aside to fund these goals as they occur
- reduce the effect of unexpected events, such as disability, premature death, etc.

## ***What is financial planning?***

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

The steps in preparing a professional financial plan include the following:

1. Identify and prioritize financial objectives such as retirement, children's education, risk management, etc.
2. Gather data and analyze your current financial affairs.
3. Prepare, analyze and compare financial alternatives.
4. Develop a plan including personal, recommended strategies to achieve your goals.
5. Identify action steps necessary to implement the plan.
6. Establish specific dates to monitor, review, and update your plan.

Setting goals and analyzing your current financial position helps set the course on your financial journey. This report addresses these initial steps in the financial planning process, and shows the projected outcome of your financial plan if you maintain the status quo. These outcomes may or may not be attainable based on your financial resources. This report will help you and your advisor prioritize your goals.

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# Net Worth

Review totals to ensure all assets and liabilities have been captured.

Your net worth statement provides a snapshot that lists the assets you currently own and the debts that you owe. Your net worth is represented by the difference between these two values. In theory, if you sold all your assets and paid off your debts, this is the amount you would have left over before taxes.

Please review these numbers to ensure that we have all of your assets and debts accurately and completely represented.

	Joe	Jane	Joint	Community Property	Total
<b>Non-Qualified Assets</b>					
Jane's 2002 NSO Grant	34,707				34,707
Joe's 2001 ISO Grant	37,693				37,693
New Haven Bed & Breakfast			353,500		353,500
Joe's Inheritance					
Jane's Inheritance					
Non Qualified Retirement Savings Acct#45677					
Balanced Income Mutual Funds			160,425		160,425
Family European Vacation Savings					
Vanguard Long-Term Treasury Inv			20,600		20,600
Life Insurance Proceeds for Jane					
Joint Savings Acct#77721					
Ridgefield Bank Savings Account			45,635		45,635
Joint Checking Acct# 12121					
Ridgefield Bank Checking Acct			15,212		15,212
<b>Total Non-Qualified Assets</b>	<b>72,400</b>		<b>595,371</b>		<b>667,771</b>
<b>Qualified Assets</b>					
Joe's 401(k) Brokerage Acct#12345					
American Century Capital Val Inv	213,532				213,532
Computer Sciences Corporation	134,223				134,223
Vanguard Long-Term Treasury Inv	178,983				178,983
Charles 529 Plan					
Education Savings for Charles	73,836				73,836
Jane's 401(k) Brokerage Acct#97657					
Microsoft Corporation		270,596			270,596
Third Avenue Sm Cap Value Fund		187,084			187,084
Vanguard Windsor-II Inv		160,031			160,031
Kathy's 529 Plan					
Education Savings for Kathy		54,330			54,330
<b>Total Qualified Assets</b>	<b>600,573</b>	<b>672,041</b>			<b>1,272,614</b>
<b>Lifestyle Assets</b>					
Other Personal Assets (i.e. collectibles)			251,250		251,250
Personal Use Property (i.e. car, boat)			502,500		502,500
Residence (i.e. home)			1,005,000		1,005,000
<b>Total Lifestyle Assets</b>			<b>1,758,750</b>		<b>1,758,750</b>
<b>Business Assets</b>					
Business Entity	555,500				555,500
<b>Total Business Assets</b>	<b>555,500</b>				<b>555,500</b>
<b>Total Assets</b>	<b>1,228,473</b>	<b>672,041</b>	<b>2,354,121</b>		<b>4,254,635</b>
<b>Liabilities</b>					
Mortgage			(274,848)		(274,848)
Personal Loans			(13,190)		(13,190)
<b>Total Liabilities</b>			<b>(288,038)</b>		<b>(288,038)</b>
<b>Total Net Worth</b>	<b>1,228,473</b>	<b>672,041</b>	<b>2,066,083</b>		<b>3,966,597</b>

Use as a benchmark to highlight net worth changes over time.

# Cash Flow

The following cash flow report outlines your current sources of income and expenses. Your income includes your employment income, investment income and other sources. Your expenses include your day-to-day expenses, debt payments including your mortgage, your current investment contributions and insurance premiums. If you have accurately provided a list of all these items, this report will give you an indication of how much money you currently have available to allocate towards your financial objectives. Please review this report to ensure we have accounted for all your income sources and expenses.

	2009
<b>Cash Inflows</b>	
<b>Employment Inflows</b>	
Salary (Joe)	218,545
Salary (Jane)	218,545
<b>Total Employment Inflows</b>	<b>437,091</b>
<b>Investment Inflows</b>	
Business Entity (Joe/S Corporation)	10,000
Education Savings for Kathy (Kathy's 529 Plan/Jane/529 Plan for Kathy)	31,438
Ridgefield Bank Checking Acct (Joint Checking Acct# 12121/Non-Qualified)	423
Ridgefield Bank Savings Account (Joint Savings Acct#77721/Non-Qualified)	1,269
Balanced Income Mutual Funds (Non Qualified Retirement Savings Acct#45677/Joint/Non-Qualified)	10,850
Vanguard Long-Term Treasury Inv (Family European Vacation Savings/Joint/Non-Qualified)	1,200
New Haven Bed & Breakfast (Joint/Non-Qualified)	30,000
<b>Total Investment Inflows</b>	<b>85,180</b>
<b>Total Cash Inflows</b>	<b>522,271</b>
<b>Cash Outflows</b>	
<b>Lifestyle Expenses</b>	
Housing (i.e. utilities, repairs) (Joint)	131,127
Mortgage (Joint)	42,000
Personal Loans (Joint)	4,800
<b>Total Lifestyle Expenses</b>	<b>177,927</b>
<b>Non-Qualified Contributions and Reinvestments</b>	
Ridgefield Bank Checking Acct (Joint Checking Acct# 12121/Non-Qualified)	423
Ridgefield Bank Savings Account (Joint Savings Acct#77721/Non-Qualified)	1,269
Balanced Income Mutual Funds (Non Qualified Retirement Savings Acct#45677/Joint/Non-Qualified)	10,850
Vanguard Long-Term Treasury Inv (Family European Vacation Savings/Joint/Non-Qualified)	1,200
<b>Total Non-Qualified Contributions and Reinvestments</b>	<b>13,742</b>
<b>Investment Expenses</b>	
New Haven Bed & Breakfast (Joint/Non-Qualified)	10,000
<b>Total Investment Expenses</b>	<b>10,000</b>
<b>Qualified Contributions</b>	
American Century Capital Val Inv (Joe's 401(k) Brokerage Acct#12345)	5,299
Computer Sciences Corporation (Joe's 401(k) Brokerage Acct#12345)	3,326
Vanguard Long-Term Treasury Inv (Joe's 401(k) Brokerage Acct#12345)	4,488
Education Savings for Charles (Charles 529 Plan/Joe/529 Plan for Charles)	2,400
Microsoft Corporation (Jane's 401(k) Brokerage Acc#97657)	5,734
Third Avenue Sm Cap Value Fund (Jane's 401(k) Brokerage Acc#97657)	3,976
Vanguard Windsor-II Inv (Jane's 401(k) Brokerage Acc#97657)	3,403
Education Savings for Kathy (Kathy's 529 Plan/Jane/529 Plan for Kathy)	2,400
<b>Total Qualified Contributions</b>	<b>31,025</b>
<b>Education Expenses</b>	
Tuition Fees (Kathy)	31,438
<b>Total Education Expenses</b>	<b>31,438</b>

Ensure incomes and expenses for the current year are accurately captured.

Kathy's first year of college expenses occur in 2009.

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	2009
<b>Miscellaneous Expenses</b>	
Joe's Group LTD Policy (Joe)	1,200
Joe's Group STD Policy (Joe)	900
Joe's LI Policy (Life Insurance)	1,500
Joe's LTC Policy (Joe)	9,835
Jane's LTD Policy (Jane)	1,080
Jane's STD Policy (Jane)	840
Jane's LTC Policy (Jane)	9,507
<b>Total Miscellaneous Expenses</b>	<b>24,861</b>
<b>Taxes</b>	
Regular Federal Tax	117,697
Alternative Minimum Tax	7,224
Social Security Tax - employment	13,243
Medicare Tax - employment	6,338
State Income Tax	22,960
<b>Total Taxes</b>	<b>167,462</b>
<b>Total Cash Outflows</b>	<b>456,456</b>
Current Surplus/(Deficit)	65,815
Previous Surplus/(Deficit)	0
<b>Ending Surplus/(Deficit)</b>	<b>65,815</b>

The last line in the preceding report projects a surplus at the end of this year. If your surplus appears to be too high, review your expenses for completeness. This amount should be the additional funds you have available for savings this year.

Does the current surplus/deficit look reasonably close to what is normally left over at the end of the day?

# Income Tax

A detailed tax analysis is performed using bracketed tax rates to calculate the tax each and every year, similar to a Form 1040.

The bracketed federal and state rates are applied to taxable income on a year-by-year basis; deductions and credits, unused charitable deductions, and AMT carryforward are supported along with the alternative minimum tax.

This report recognizes both ordinary income and income eligible for the long-term capital gains tax rate. The calculation of federal, state and alternative minimum tax (if applicable) is included. This analysis assumes that your tax filing status is "Married - Filing Joint".

<b>Regular Tax Calculation</b>	
<b>Calculation of Total Income</b>	
Employment	\$410,865
Investment	
Interest	\$13,742
Rental	\$12,590
Ordinary Business Income	\$30,000
<b>Total Income</b>	<b>\$467,197</b>
<b>Calculation of Adjusted Gross Income</b>	
Total	\$0
<b>Adjusted Gross Income</b>	<b>\$467,197</b>
<b>Calculation of Taxable Income</b>	
Taxes you paid	\$22,960
Deductible Mortgage Interest	\$16,551
Personal Exemptions	\$9,733
Itemized Deductions Phased-out	(\$3,004)
Total	\$46,240
<b>Taxable Income</b>	<b>\$420,957</b>
<b>Regular Federal Tax Calculations</b>	
Federal Tax on Taxable Income	\$117,697
<b>Tax Credits (Non-Refundable)</b>	
Total	\$0
<b>Regular Federal Tax</b>	<b>\$117,697</b>
<b>Alternative Minimum Tax</b>	<b>\$7,224</b>
<b>Total Tax Calculation</b>	
Regular Federal Tax	\$117,697
Alternative Minimum Tax	\$7,224
<b>Net Federal Tax</b>	<b>\$124,921</b>
Social Security Tax - employment	\$13,243
Medicare Tax - employment	\$6,338
<b>Connecticut State Income Tax</b>	
Total	\$22,960
<b>Summary</b>	
Total Income Tax	\$167,462
Total Taxes	\$167,462
<b>Income after Tax</b>	<b>\$344,809</b>
<b>Federal Tax Bracket</b>	<b>35.00%</b>
<b>Effective Marginal Tax Rate</b>	<b>33.00%</b>

NaviPlan Extended's *Effective Marginal Tax Rate* can help illustrate the true percentage lost to taxation on the next dollar of ordinary income. It can be an important tax planning tool in situations where there may be a way to minimize gross income.

Important  
investment  
results.

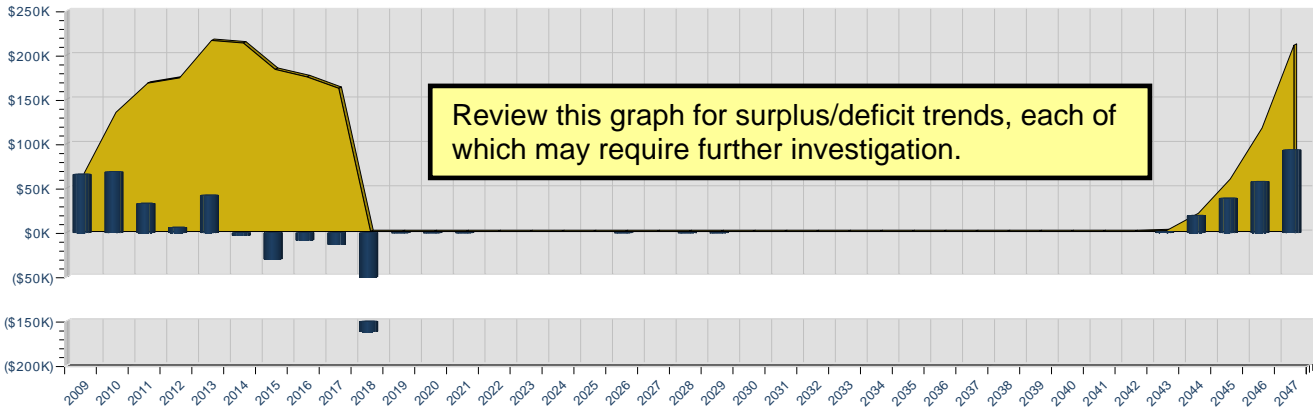
investment, and are shown for illustrative purposes only. If included, fees and other operating expenses would materially reduce these projections. See the Disclaimers section at the beginning of this document for more information.

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# Current Plan Analysis

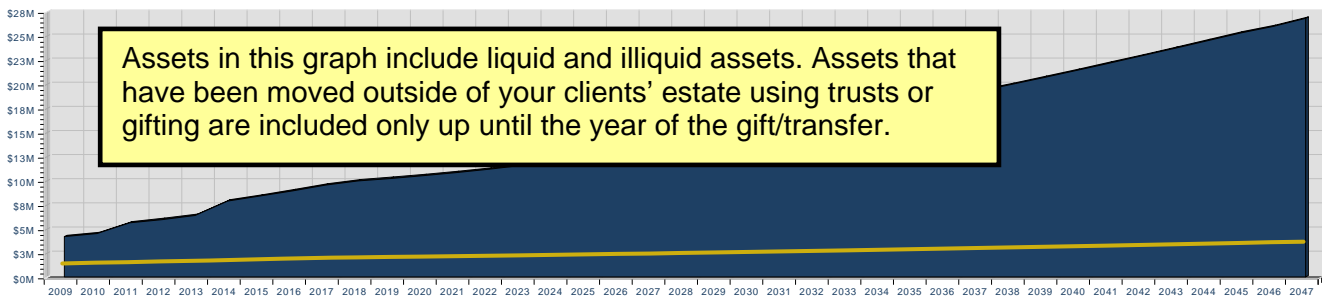
The following graphs show how your current plan will support your financial needs over your lifetime. The top graph projects your current and accumulated cash flow surplus or deficit over your lifetime. The top graph projects your current and accumulated cash flow surplus or deficit over your lifetime. Your projected total net worth over your lifetime is illustrated in the bottom graph.

**Current and Accumulated Cash Surplus/Deficit graph**



 Accumulated Surplus/ Deficit
  Current Surplus/ Deficit

**Net Worth Graph**



 Total Net Worth
  Lifestyle Assets

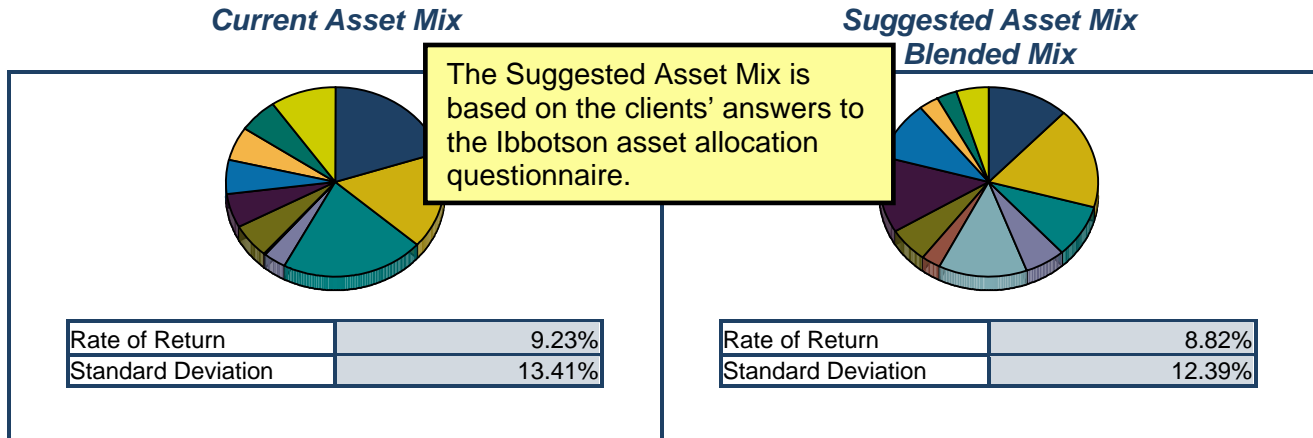
The top graph is a cash flow projection graph. It is used to determine years when you have a deficit or surplus based on the income and expense information you provided. This graph shows both the individual cash flow position for each year, as indicated by the bar graphs, and the accumulated cash flow position as indicated by the area graphs. Accumulated deficits indicate that you may run out of money at that time based on your projections. Accumulated surpluses could point to an opportunity to save money during your working years and could also identify that your expenses were not properly defined.

The bottom graph is a net worth graph. It is used to monitor the change in the value of your net assets over time. If you have moved assets outside of your estate through establishing trusts or gifting, these amounts will also be displayed.

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# Asset Allocation for Entire Portfolio

The following graphs illustrate the asset allocation for your current plan and your proposed plan.



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	Current Asset Mix		Change		Suggested Asset Mix	
	(%)	(\$)	(%)	(\$)	(%)	(\$)
Large Cap Growth Equity	20.0	316,686	-8.0	-125,479	12.0	191,206
Large Cap Value Equity	16.5	262,344	+0.8	+8,945	17.3	271,289
Mid Cap Equity	21.2	335,445	-12.2	-192,040	9.0	143,405
Small Cap Equity	3.4	54,254	+2.6	+40,806	6.0	95,060
International Equity	0.1	1,871	+13.0	+206,486	13.1	208,357
Emerging Markets Equity	0.1	1,871	+2.8	+44,844	2.9	46,715
Long Term Bonds	5.8	92,042	+0.2	+3,868	6.0	95,910
Intermediate Term Bonds	5.8	92,042	+7.2	+114,016	13.0	206,058
Short Term Bonds	5.8	92,042	+4.2	+66,563	10.0	158,605
High Yield Bonds	5.8	92,042	-2.9	-46,107	2.9	45,935
International Bonds	5.8	92,042	-2.8	-44,435	3.0	47,607
Cash	9.7	154,205	-4.9	-77,466	4.8	76,739
<b>Total</b>	<b>100.0</b>	<b>1,586,885</b>	<b>+0.0</b>	<b>+0</b>	<b>100.0</b>	<b>1,586,885</b>

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Modifications required to the current portfolio to arrive at the asset mix of the suggested portfolio.

## Consider the following:

- Your time horizon and tolerance for risk are key factors in determining your asset allocation for each objective.
- Asset allocation and return rate expectations affect the amount you need to save to meet your objectives.
- Managing your asset allocation also means avoiding unnecessary risk in the selection of your portfolios if you can comfortably meet your objectives with a lower risk portfolio.
- Monte Carlo simulations will further assist you in analyzing the risk/return trade-off.

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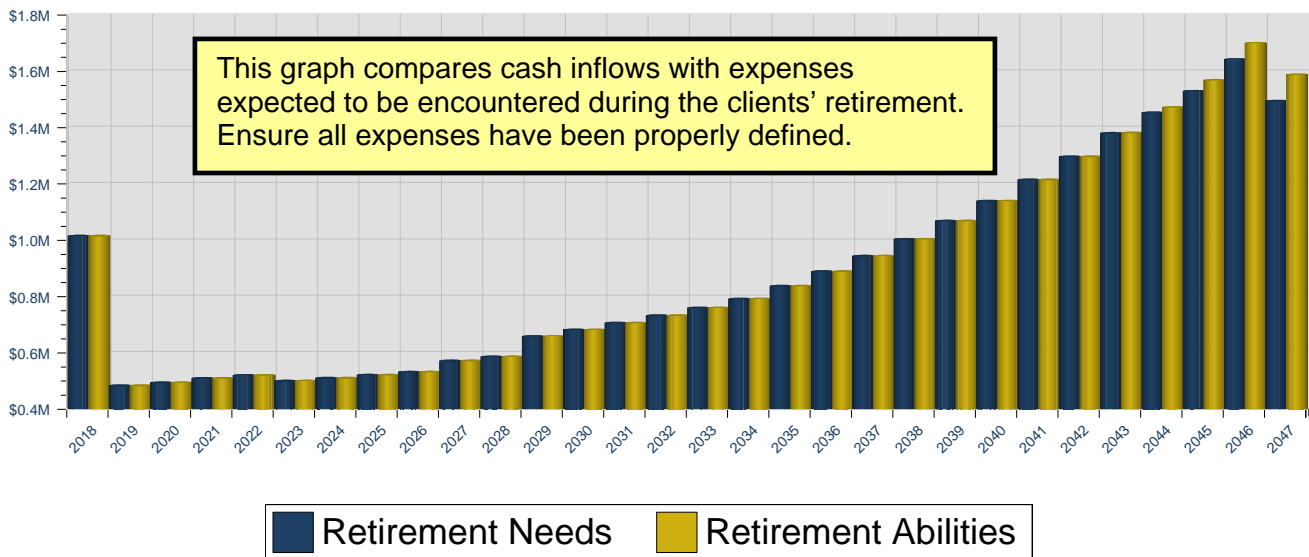
# Retirement

Joe would like to retire on October 1, 2018 at the age of 62. Jane would like to retire on September 1, 2018 at the age of 60.

Prior to analyzing your retirement needs, you should ensure your expenses are properly defined for retirement. Your expense need in retirement will determine if any additional savings are required based on your current savings.

The graph below illustrates your income needs and your ability to meet those needs throughout your projected retirement period.

## Retirement: Needs vs. Abilities



Joe and Jane's retirement goal is overfunded by a significant amount. This can represent an opportunity to use surplus amounts for the funding of other goals or to discuss estate planning needs.

## Retirement: Goal Summary

Retirement Income Needs <sup>1</sup>	Current Retirement Assets	Amount (Under)/Over Funded <sup>2</sup>	Current Monthly Savings	Additional Monthly Savings <sup>3</sup>
\$245,000	\$1,354,500	\$21,475,708	\$4,098	\$0

<sup>1</sup> Projected annual after tax needs (in today's dollars) in the first full year of retirement (January 1, 2019 - December 31, 2019).

<sup>2</sup> Amount represents the ending retirement surplus/deficit.

<sup>3</sup> Estimated amount based on saving to the current asset mix for retirement goal with no auto-reallocation.

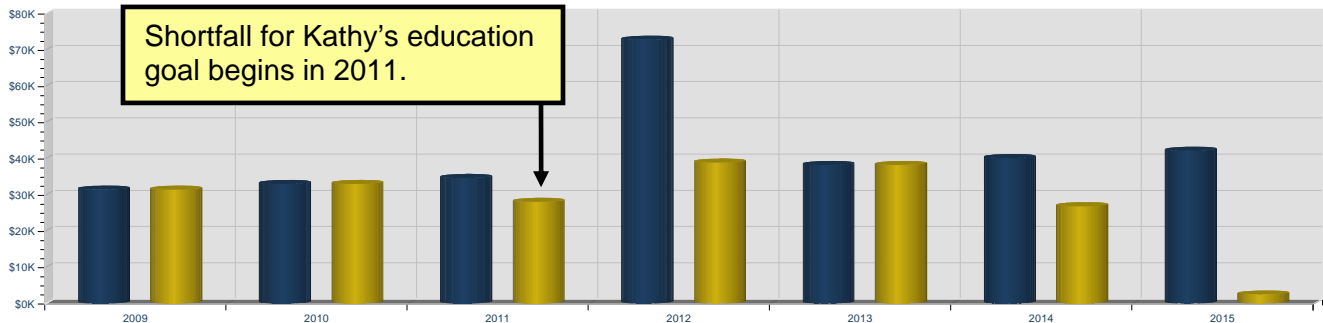
The average assumed rate of return for assets linked to your retirement goal is **9.56%**.

# Education

Planning for your education expenses is another very important objective. The cost of college education can be a significant expense. Proper planning will make this expense easier to handle when the time comes.

The graph below illustrates the educational income needs for your family and the ability to meet those needs throughout your family's future college years.

## Education: Needs vs. Abilities



## Education: Goal Summary

Family Member	Start Date	Years	Average Educational Cost <sup>1</sup>	Education Assets	Amount (Under)/Over Funded	Current Monthly Savings	Additional Monthly Savings	Assumed ROR
Kathy	Jan 1 2009	4	\$32,366	\$83,000	(\$40,527)	\$200	\$1,354 <sup>2</sup>	6.00%
Charles	Jan 1 2012	4	\$34,312	\$70,500	(\$52,974)	\$200	\$713 <sup>2</sup>	6.00%
<b>Total</b>				<b>\$153,500</b>		<b>\$400</b>	<b>\$2,067</b>	<b>6.00%</b> <sup>3</sup>

Shortfalls exist for both of the education goals in the Current Plan. If other goals are overfunded, consider directing the excess funds toward the education goals.

<sup>1</sup> The total of all the expenses (in today's dollars) in all years divided by the number of years this goal is active.

<sup>2</sup> Estimated amount based on saving to the current asset mix for education goal with no auto-reallocation.

<sup>3</sup> Assumed average rate of return based on assets linked to all education goals.

The average assumed rate of return for assets linked to your education goal is **6.00%**.

### Consider the following:

- Determine realistic values for tuition and related college expenses.
- Factor the effects of inflation into your plan, keeping in mind that historically, college costs have increased at a significantly higher rate than inflation overall.
- Start investing regularly in your college fund.
- Where possible, take advantage of educational savings vehicles such as Coverdell ESAs, 529 Plans, UTMA and UGMA accounts.
- Begin saving for your education expenses as early as possible.

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# Monte Carlo Analysis

A Monte Carlo Analysis can be performed on any plan and can indicate how successful a plan may be when market performance deviates from the assumptions made in the plan. It is a “stress test” for a plan.

Monte Carlo Analysis expands the traditional financial planning model by considering the uncertainty factor in the plan. This analysis takes into consideration that it is difficult to accurately predict annual return rate expectations. While return rate expectations over the long term can be reasonably predicted, the actual pattern over the short term is difficult to predict and may often appear random. Monte Carlo Analysis analyzes your financial plan by randomizing the return rates with the normal assumed range each year and performing this analysis multiple times to simulate a number of possible financial outcomes.

For example, an account with a projected average return rate of 8% may vary to some degree. Monte Carlo Analysis allows us to randomly project an account's returns forward, assuming that in some years the account will return a rate lower than the average (say, 4%), and in other years the account will return a rate higher than the average (say, 12%), for an overall average of 8%. Allowing for this variability in returns does have an effect on the overall plan and the probability for success.

Another element to consider is the uncertainty of your life expectancy. What if you die tomorrow or live to be 110? Monte Carlo Analysis can add this parameter by simulating a different possible life expectancy for each projection.

The outcomes that satisfy all your financial objectives are considered successes and those that do not are considered failures. Overall, a probability of success is determined.

## **Consider the following:**

- Do your investments provide you with sufficient cash flow over the entire planning horizon? Do large holdings of non-income-producing real estate need to be liquidated at some point during your lifetime?
- Do you have adequate investments to cover shorter-term objectives such as children's education and major purchase and expense items?
- Is the level of risk for your investments appropriate? Could you satisfy your financial objectives with a lower level of risk?
- Comparing plans with two different risk profiles allows you and your advisor to analyze the relative success of the two plans.

## **Analyzing the Results**

The two graphs in this analysis display a number of projections. The top graph illustrates cash flow and the bottom graph illustrates net worth. In each projection, the return rate expectations have been randomized each year within a range to simulate the assumed ups and downs that many investments, such as stocks, exhibit. The line in each graph represents the traditional projection, based on the rates of return that were specified in the plan, without any fluctuations from year to year.

Each projection may either be a success or a failure. A success is represented by a series of square points. A failure is represented by a series of “X”s. A success is defined as a projection that is able to meet the cash flow needs in every year of the plan, without experiencing an accumulated deficit greater than defined in the table at the bottom of the graph (*Accumulated Surplus/Deficit Success Tolerance*).

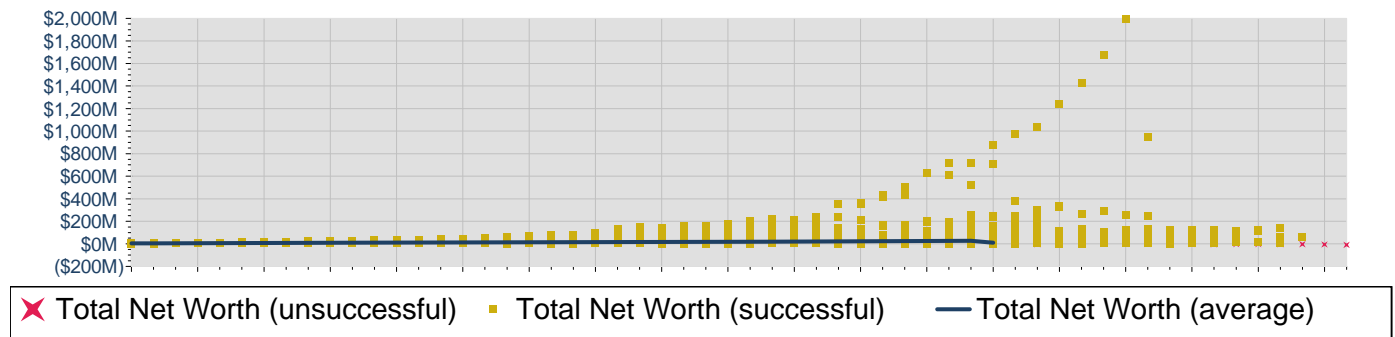
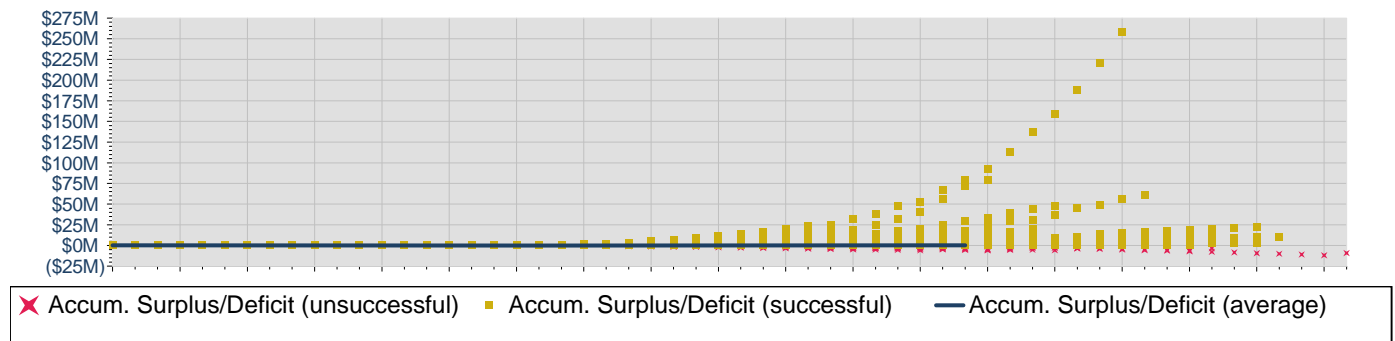
The overall *Success Rate* is the probability that you will successfully meet all your financial objectives over your lifetime.

The terminal net worth of the 90<sup>th</sup>, 50<sup>th</sup> and 10<sup>th</sup> *Percentiles* is also listed. The 90th percentile illustrates the projection where 90% of the results are below this value. The 50<sup>th</sup> percentile is the median projection where half the projections fall above and half fall below this value. The 10<sup>th</sup> percentile illustrates the projection where 10% of the results are below this value.

The significance of this graph is that the element of uncertainty will cause the results of each projection to vary. From a financial planning perspective, it is important for your plan to withstand the assumed changes in the value of your investments and be able to meet your income needs throughout your lifetime. The greater the risk in your investments, the greater the cushion of assets you will need to withstand the ups and the downs. When selecting an investment portfolio you should try to select a portfolio with a risk level that is consistent with meeting all your financial objectives and avoiding any unnecessary risk.

The following is a Monte Carlo Sensitivity Analysis of your current plan.

### Current Plan



Goal	Success Rate	10th Percentile	50th Percentile	90th Percentile
<b>All Goals</b>	0.00%			
<b>Retirement Goal</b>	86.67%	\$898,044	\$7,310,734	
Kathy's Education	0.00%	\$91,434	\$95,314	
Charles' Education	0.00%	\$93,678	\$104,011	\$117,211
Family European Vacation	6.00%	\$32,833	\$32,833	\$32,833

Indicates the probability of success for the goals.

Assumptions	
Life Expectancy Randomized	Yes
Force Full Deficit Coverage	Yes
Annual Cash Flow Deficit Tolerance	(\$10,000)
Education Goals Success Tolerance	(\$1,000)
Major Purchase Goals Success Tolerance	(\$500)
Number of Projections	150

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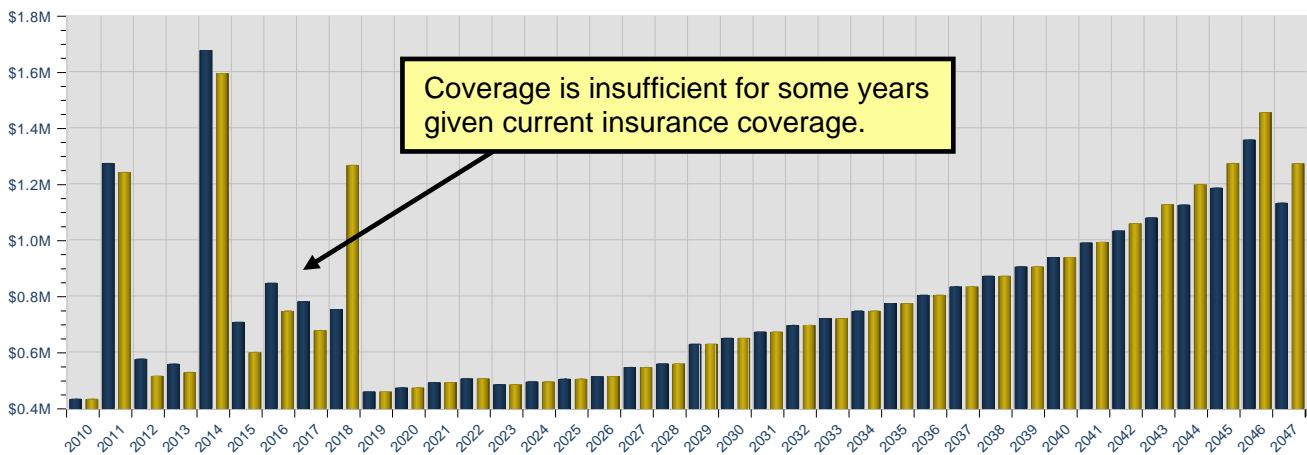
# Disability Insurance

At most ages, you are more than twice as likely to become disabled than to die prematurely. A disability insurance analysis should ensure that in the event of Joe or Jane's disability, there is sufficient income replacement to maintain your desired lifestyle.

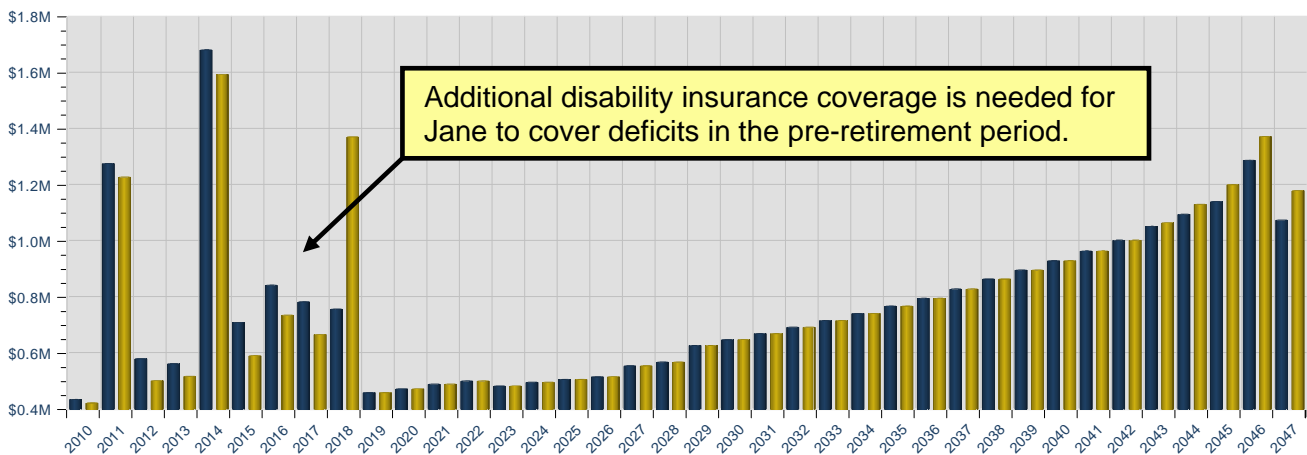
For most people, our jobs are our main source of income, though additional income may be generated from investments. How long could you meet your cash flow needs if this income ceased? How would this income be replaced? If you sold off assets, how would that affect your net worth, lifestyle, etc?

The following graphs illustrate your income needs and your ability to meet those needs throughout your lifetime, in the event that one of you should become disabled.

## If Joe is Disabled



## If Jane is Disabled



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The following table highlights your financial situation in the event of Joe or Jane's disability. For purposes of this analysis, we assume that disability occurs on January 1st, 2010.

	If Joe is disabled	If Jane is disabled
<b>Current Employment Income</b>	\$18,212 per Month	\$18,212 per Month
<b>Existing Insurance Coverage</b>	\$10,000 per Month	\$9,000 per Month
<b>Average Annual Deficit (Pre-Retirement)</b>	\$64,367	\$76,778
<b>Largest Annual Deficit (Pre-Retirement)</b>	\$108,227	\$119,129
<b>Average Annual Deficit (Retirement)</b>	\$1	\$1
<b>Largest Annual Deficit (Retirement)</b>	\$14	\$10
<b>Net Worth in 2047</b>	\$22,404,115	\$20,870,798

**Net Worth in 2047 is estimated to be \$23,128,614 if Joe and Jane are not disabled.**

The *Average Annual Deficit* provides a base estimate in determining replacement income needed throughout your lifetime. The average only takes into consideration years when you are projected to experience cash flow deficits. Years with surplus cash flows are ignored in calculating the average. The *Largest Annual Deficit* identifies the largest deficit amount.

*Existing Insurance Coverage* reflects only Long Term and Individual Disability policies, and does not take into account any waiting periods that these policies may be subject to. Depending on the circumstances, you may or may not be able to purchase sufficient disability insurance to eliminate all of your deficits. We should further discuss your disability income needs to clarify these issues.

**Consider the following:**

- Ask yourself what expenses would change if either you or your co-client became disabled.
- Review your group coverage at work. You may not want to rely on just group policies in the event that you change jobs or your employer changes to another insurer where you may no longer be eligible. The coverage may also be inadequate.
- Review your existing policy's monthly disability benefit, definition of disability, waiting period and duration of benefits.
- Review the coverage periodically and adjust it according to the changes in your income and expense needs.

Review these important considerations and strategies to maintain net worth should a disability occur.

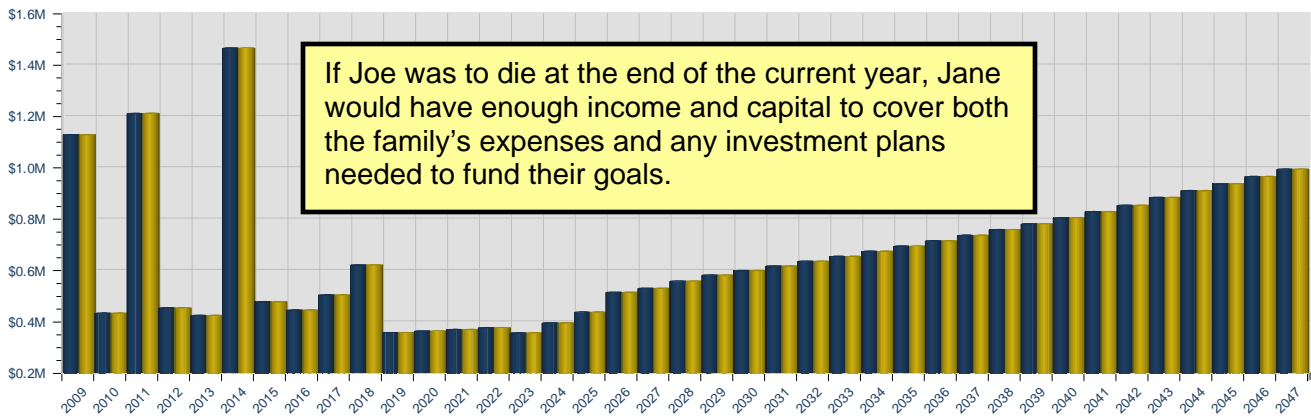
# Life Insurance

A life insurance analysis should ensure that when a death occurs in your family, there is sufficient income and capital to cover the cash flow needs for the surviving family members over the entire planning period. When you are young, a major reason for having life insurance is to provide financial protection for your dependent family. Without the continued benefit of your income, your family may not be able to afford their ongoing expenses for housing, transportation, food, clothing, etc. There may also be additional expenses for childcare. College education and retirement needs will also continue to exist.

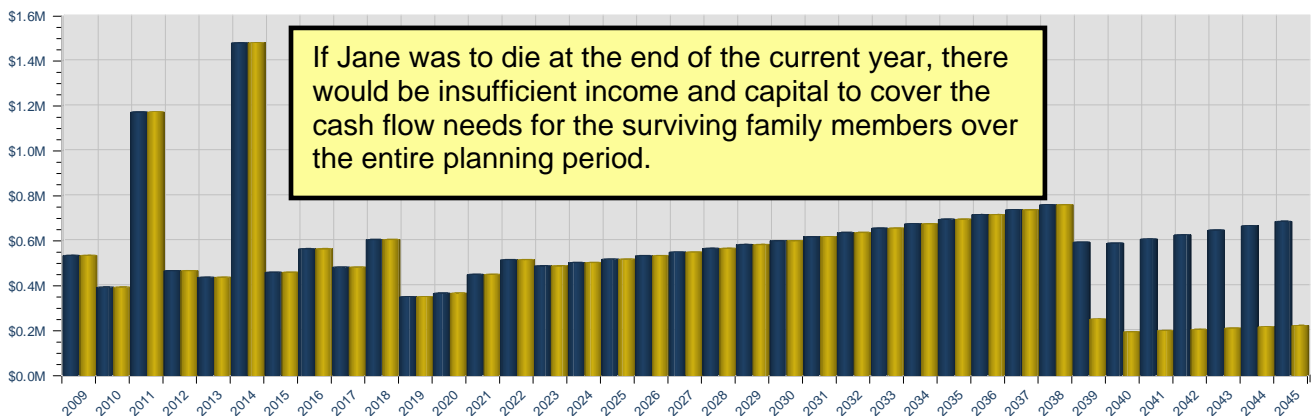
When you are older, the major goal of life insurance may be to protect the value of your estate from declining due to estate tax, income tax and other costs. This type of life insurance provides cash flow to meet these needs, which would otherwise have to be covered by redeeming your existing assets.

The following graphs illustrate your income needs and your ability to meet those needs throughout your lifetime, in the event that one of you should die.

## If Joe Dies



## If Jane Dies



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The following table highlights your financial situation as of January 1, 2010, in the event of Joe or Jane's death. For purposes of this analysis, we assume that death occurs on December 31<sup>st</sup>, 2009.

Cash flow items	If Joe dies this year	If Jane dies this year
Available Assets	\$1,984,374	\$2,022,721
Existing Life Insurance Coverage	\$500,000	\$0
Total Insurance Required <sup>1</sup>	\$500,000	\$270,000
Recommended Additional Life Insurance Coverage <sup>2</sup>	\$0	\$270,000
Remaining Assets at Last Death	\$4,713,210	\$728,240

1 Represents the total amount of life insurance coverage that is required to meet your financial goals, should one of you die this year.

2 The recommended additional coverage includes any under-funded financial goal such as education and retirement.

Additional life insurance recommended for Jane.

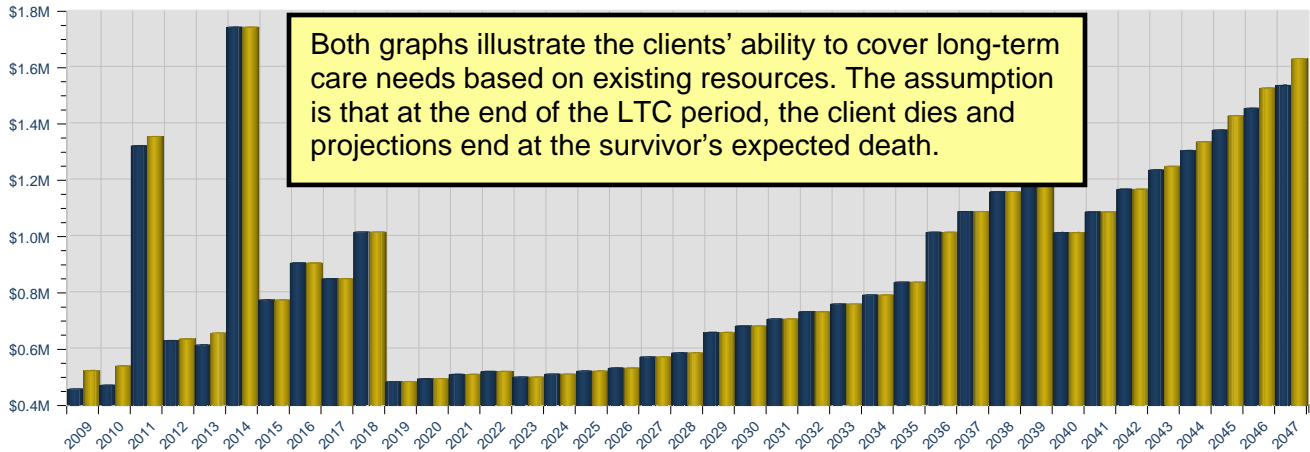
**Consider the following:**

- Ask yourself what expenses would change if either you or your co-client died tomorrow.
- Review your group coverage at work. You may not want to rely only on these policies; you may change jobs or your employer could change to another insurer where you may no longer be eligible. The coverage may also be inadequate.
- Review the coverage periodically to ensure it continues to meet your family's changing needs.
- It is also important to consider continued savings to fund other financial goals.

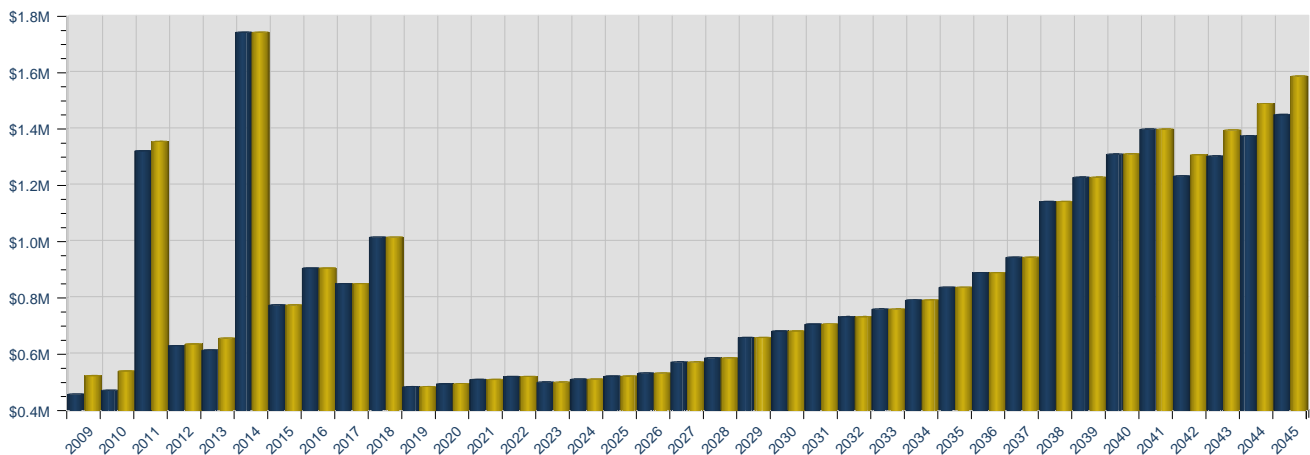
# Long-Term Care Insurance

The following graphs illustrate your income needs and your ability to meet those needs throughout your lifetime, in the event that one of you should require long-term care.

## If Joe Requires Long-Term Care



## If Jane Requires Long-Term Care



Long-Term Care Needs
  Long-Term Care Abilities

	If Joe Requires Long-Term Care	If Jane Requires Long-Term Care
LTC Age / Year	80 / 2036	80 / 2038
LTC Duration	4	4
Existing LTC Benefits	\$100/day	\$100/day
LTC Expenses	\$150/day	\$150/day
LTC Benefit Shortfall	(\$50) /day	(\$50) /day

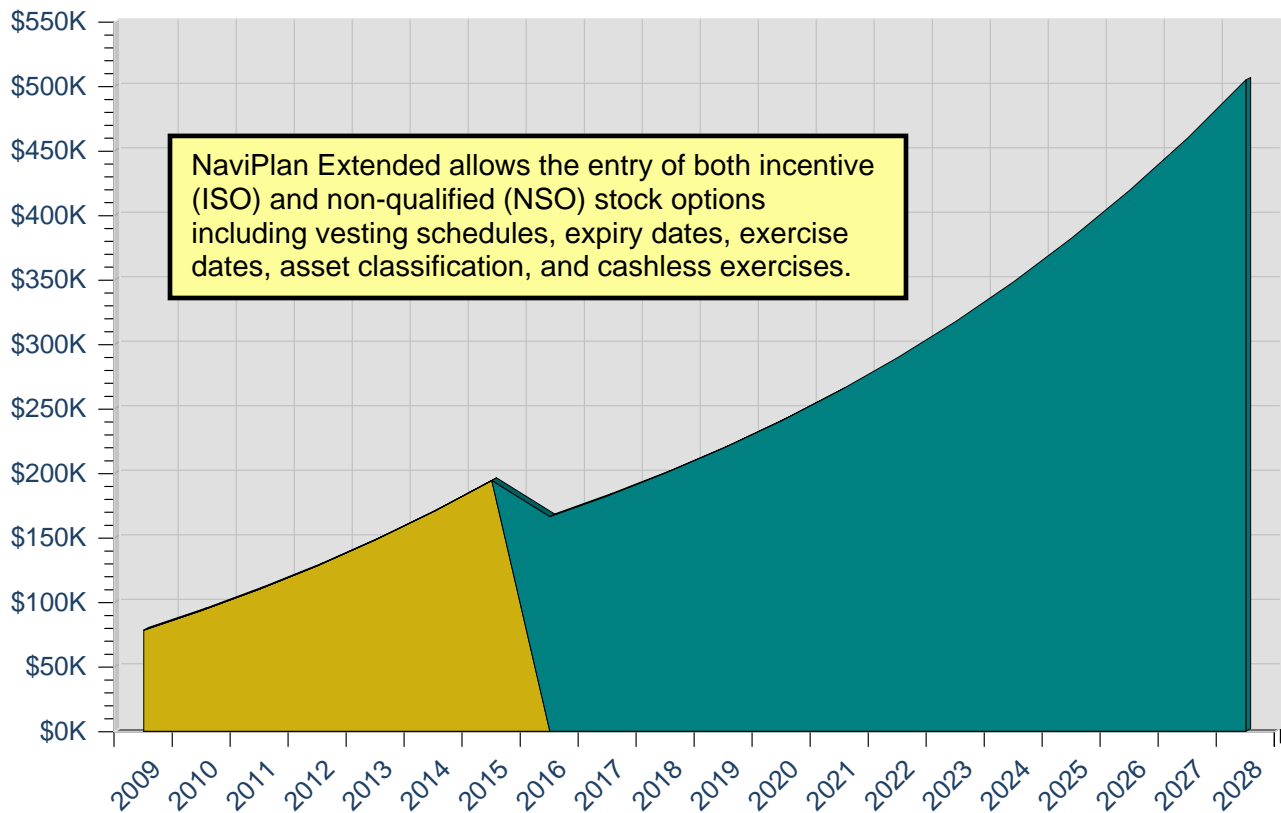
Additional LTC coverage recommended for both Joe and Jane.

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# Stock Option Planning

Stock options give you the right to purchase a specified number of shares of your company stock at a specified price (strike price). These options generally vest over a period of years and have an expiration date (generally 10 years from the grant date). There are generally no income tax implications for stock options until you exercise them. To the extent that the market price is greater than the strike price, you will have a gain when you exercise. The tax treatment of this gain depends on the type of options you have been given.

The following graph illustrates the progression of your stock options from granting, to vesting, to exercise.



▲ Stock Options Granted not Vested    ▲ Stock Options Vested not Exercised    ▲ Stock Options Exercised

Please see Appendix A – Plan Data Summary for further details regarding your stock options.

## Consider the following:

- Discuss with your advisor the most appropriate time to exercise your stock options.
- Review your overall asset allocation at the time you exercise options. If you have a significant portion of your investments in these assets, you may want to consider diversifying at that point or over time.

A number of additional reports and graphs can be used to illustrate the implications of various stock option strategies.

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# Estate Planning

The *Preliminary Analysis* report assumes a *Simple Will* scenario, whereby assets owned by Joe pass automatically to Jane via the unlimited marital deduction.

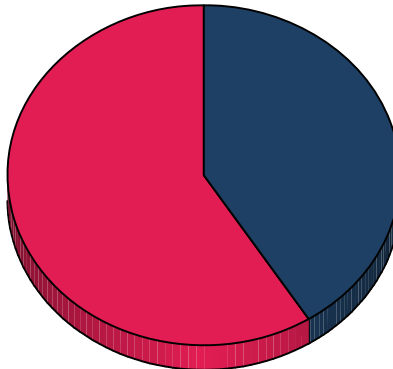
Estate planning is the process of developing and implementing a master plan that ensures the distribution of your property during your life and after your death according to your goals and objectives. Without such a plan, you lose control of the distribution and taxation of your assets and leave those decisions to chance and outside forces.

The graph and table below provides an overview of your current estate tax situation and amount transferred to heirs.

## Current Estate Planning Scenario

*If Joe were to die in 2016, and Jane were to die in 2021.\**

Use this pie chart and the table to illustrate to the clients the need for an analysis of their estate plan. There may be some opportunities to lower the total taxes and thus increase the net amount distributed to heirs and charities.



▲ Net to Heirs (41%)    
 ▲ Net to Charity (0%)    
 ▲ Total Taxes (59%)

Scenario	Total Taxes	Net to Heirs	Net to Charity
Existing Estate Scenario	\$6,692,715	\$4,657,145	\$0

\* The life expectancy assumptions may differ from the life expectancy used in the plan to illustrate the effects of a premature death on the estate plan.

NaviPlan Extended offers numerous reports and graphs to illustrate the effects of estate planning strategies on the clients' plan.

### Consider the following:

- Regardless of the size of your estate, everyone should have a will, enduring power of attorney and living will and health care proxy.
- Many estate planning strategies reduce taxes and fees that will ultimately have to be paid upon your death.
- Each strategy has its advantages and disadvantages and may provide various degrees of control over the assets once they leave the estate.
- We should discuss some of these alternatives with your attorney and determine if your wills and other legal documents need updating.

# Conclusion

Now that you have an overview of your current financial situation, where do you go from here? Our recommendations are as follows:

1. **Review this document** and ensure you understand the information contained in the report. Be sure to ask us questions on areas that need clarification.
2. **Assess original objectives** – are they realistic? Can you afford to implement all of your objectives? What are the priorities? Consider alternative goal dates, revised goal amounts, and alternative investment strategies if you are unable to fund all of your objectives. We will work together in the process.
3. **Review various strategies** that will help you to achieve your goals and determine a time frame for these strategies.
4. **Decide on a course of action** – together, we will evaluate the alternative that is consistent with your objectives and your financial ability. The *Comprehensive Analysis* report will detail a suggested plan of action based on any recommended changes to your plan.
5. **Implement the chosen strategies** that immediately affect your plan. Ensure you have a reliable follow-up method for those strategies that start at a future date. Make sure it is clear who will be responsible for implementing the task. Which items are you responsible for initiating? Which actions are the responsibilities of your other professional advisors – attorney, accountant, etc.? A checklist for these tasks is useful.
6. **Review your plan** on a regular basis, generally once a year. In addition, review it whenever a major change occurs in your family (e.g., changes in employment, birth of a child, new income or expenses, etc.). You may need to adjust your plan in light of any of these new circumstances.

One final thought!

Remember to maintain a long-term focus with your plan. Do not expect to anticipate every curve in the road but be prepared to adjust your plan when necessary. Your financial plan is not a single event but a journey that may cover ten, twenty, thirty years or longer.

Prepare next steps and set up next meeting.

# Appendix - Plan Data Summary

The Current Plan is based on these assumptions. Ensure the data is accurate.

## General Information

Detail	Joe	Jane
Birth Date	Oct 1 1956	Sep 15 1958
Proposed Retirement Date	Oct 2018	Sep 2018
Life Expectancy	Dec 2046	Dec 2048

## Tax Options

The option “As legislated” was selected. In 2011, the calculations outlined will revert to the tax laws used in 2001, except where extended by the Pension Protection Act of 2006.

## Assumptions

Detail	
Return on Excess Cash Flow:	0.00%
Interest rate applied to Deficits:	0.00%
Inflation Rate	3.00%
Tax Filing Status-Joe	Married Filing Jointly
Tax Filing Status-Jane	Married Filing Jointly

## Estate Assumptions

Detail	Joe	Jane
Life Expectancy	2016	2021
Simultaneous Death	2009 <sup>1</sup>	2009
State Death Tax	Max. Fed. Credit	Max. Fed. Credit
Inheritance Tax	0.00%	0.00%
Probate Fee	1.00%	1.00%
Administration Fee	1.00%	1.00%

Joe dies first

## Dependents

Name	Birth Date	Age as of Plan Date	Dependent of (for tax)	Dependent of (for Social Security)
Charles	Jan 5 1994	15	Joe and Jane	Joe and Jane
Kathy	Apr 23 1991	18	Joe and Jane	Joe and Jane

## Professional Advisors

Type	Name	Business Phone #	Cell Phone #
Advisor	Linda Hamilton		

## Regular Income

Income Source	Member	Applicable	Amount	Indexed
Salary	Joe	Jan 1 2006	\$200,000/year	Inflation
Salary	Jane	Jan 1 2006	\$200,000/year	Inflation

## Lump Sum Incomes

Income Source	Member	Applicable	Amount	Indexed
Jane's Inheritance	Jane	Jan 1 2014	\$1,000,000	No
Joe's Inheritance	Joe	Jan 1 2011	\$750,000	No

## Defined Benefit Pension Plans - Estimate Benefit

Description:	Joe's Pension	Annual Benefit:	\$20,000
Plan Owner:	Joe	Indexed by:	3.00%
Pct. payable to survivor:	0.00%		

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## Social Security Retirement Benefits

Member	Start Age/Date	Calculated Monthly Benefit (% / \$) OR Est. Monthly Benefit (today's \$)	Indexed	Eligible for Spousal Benefits
Joe	Retirement	100% / \$1,809	Inflation	Yes
Jane	Retirement	100% / \$1,767	Inflation	Yes

## Social Security Survivor Benefits

Member	Monthly Benefit to Survivor and Eligible Dependents (% / \$)	Monthly Benefit to Survivor at Retirement (%/\$)	Spouse's Revised Start Date During Retirement	Indexed
Joe	100% / \$1,801	100% / \$1,717	Retirement	Inflation
Jane	100% / \$1,804	100% / \$1,937	Retirement	Inflation

## Regular Expenses

Expense	Member	Start Date	End Date	While Working	While Retired	While Survivor	Annual Amount	Indexed
Housing (i.e. utilities, repairs)	Joint	Jan 1 2006	Aug 31 2018	100%	0%	85%	\$120,000	Inflation
Retirement	Joint	Sep 1 2018	Dec 31 2048	100%	100%	85%	\$225,000	Inflation
Travel	Joint	Sep 1 2018	Aug 31 2023	100%	100%	85%	\$20,000	Inflation
Lifestyle Expense	Joe	Never	Dec 30 2999	0%	0%	0%	\$54,750	Inflation
Lifestyle Expenses	Jane	Never	Dec 30 2999	0%	0%	0%	\$54,750	Inflation

## Lump Sum Expenses

Expense	Member	Applicable	Amount	Indexed	Fixed Expense
Burial Expense	Jane	Dec 31 2048 (Jane's Deceased Date)	\$10,000	Inflation	Yes
Burial Expense	Joe	Dec 31 2046 (Joe's Deceased Date)	\$10,000	Inflation	Yes

## Lifestyle Assets

Asset Name	Purchase Date	Purchase Amount	Market Value Date	Market Value	Growth Rate <sup>1</sup>	Standard Deviation
Residence (i.e. home) (Joint/Lifestyle)	Dec 31 2005	\$1,000,000	Apr 26 2009	\$1,000,000	2.0%	0.0%
Personal Use Property (i.e. car, boat) (Joint/Lifestyle)	Dec 31 2005	\$500,000	Apr 26 2009	\$500,000	2.0%	0.0%
Other Personal Assets (i.e. collectibles) (Joint/Lifestyle)	Dec 31 2005	\$250,000	Apr 26 2009	\$250,000	2.0%	0.0%

<sup>1</sup>The growth rate is a pre-tax amount

## Real Estate Assets

Asset Name	Purchase Date	Purchase Amount	Market Value Date	Market Value	Growth Rate	Rental Income
New Haven Bed & Breakfast (Joint/Non-Qualified)	Jan 1 2004	\$340,000	Jan 1 2009	\$350,000	2.0%	\$30,000

## Business Entity Assets

Asset Name:	Business Entity (Joe/S Corporation)		
Purchase Date:	Jan 1 2001	Income:	\$50,000
Purchase Amount:	\$525,000	Expenses:	\$20,000
Market Value Date:	Jan 1 2006	Distributions:	\$10,000
Market Value:	\$550,000	AMT Adjustments:	\$8,000
Growth Rate:	2.0%	Standard Deviation:	20%

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# Delivery Acknowledgement

We, Joe and Jane Sample Client, 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 projections are included simply as a tool for decision-making and do not represent a forecast of our financial future. This plan 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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Joe Sample Client

Client signatures acknowledge the review and acceptance of the information contained in this proposal.

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Jane Sample Client

Date:

## ***Please Note...***

*This plan 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 projections. It is possible that these variations may be material. The degree of uncertainty normally increases with the length of the future period covered.*