



Sample FPSB Financial Plan



FINANCIAL PLANNING STANDARDS BOARD

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I. EXECUTIVE SUMMARY

FINANCIAL MANAGEMENT

CURRENT POSITION

Emergency Fund

- You have indicated you would like a dedicated Emergency Fund with enough money to cover about six months of expenses
- No assets have yet been dedicated to an Emergency Fund

Credit Card Debt:

- You have indicated you wish to use debt efficiently
- You have indicated that you have US\$36,000 in credit card debt and bank overdraft debt at an interest cost of 15% a year (more than a US\$5,000/yr expense)

Mortgage Debt:

- You have indicated that you wish to use debt efficiently
- You have indicated that you have a new US\$350,000 30-year fixed mortgage at over 9% a year (more than a US\$690,000 expense over the 30-year term)

College Fund

- You have indicated you will provide US\$10,000 each year for four years (beginning in two years) for Marcia's college education
- No assets have yet been dedicated to the educational expenses

PROPOSED POSITION

Emergency Fund

- Designate Kelvin's Bank Saving Account as an Emergency Fund
- Annual expenses are estimated between US\$90–100,000, so set aside US\$50,000 (and adjust for inflation each year)
- The current balance is US\$45,000, so add US\$5,000 from Kelvin's Checking Account

Credit Card Debt

- Pay in full Kelvin's US\$1,00 Credit Card Debt with Kelvin's Checking Account
- Pay in full Eva's US\$15,000 Credit Card Debt with Eva's Money Market Account
- Pay in full Eva's US\$20,000 Bank Overdraft with US\$18,000 from Eva's Money Market Account and US\$2,000 from Eva's Bank Savings Account

Going forward,

- Pay in full all purchases at the end of each month (maintain zero credit card balances and bank overdraft balances)
- Develop a monthly budget for household & lifestyle expenses (including insurance costs and travel and entertainment)
- Develop a monthly spending amount for Eva's personal expenses and add to the budget; If Eva exceeds the amount, the excess will be paid from her Money Market Account

Mortgage

- Consider refinancing the mortgage at a lower interest rate (current rate is 11%)
 - Assuming a new 30-year mortgage, a drop of even 1 or 2% would save in excess of US\$90,000 in interest costs over the life of the mortgage
 - Assuming a new 15-year mortgage, with a drop of 1 or 2%, you could save approximately US\$39,000 in interest costs over the life of the mortgage, and retire the mortgage 15 years early.

College Fund

- With college expenses beginning in two years, dedicate US\$40,000 to a Money Market Account with funds derived from a sale of Kelvin's Trent Tire stock

Risk Management

CURRENT POSITION

Disability

- You have indicated that you would like to ensure that the family is provided for in the event of a disability
- The family does not have disability coverage
- Kelvin has indicated that the business would not be able to survive if he were to become disabled
- There is no corporate disability coverage (business continuation coverage)

Life

- You have indicated that you would like to ensure that the family is provided for in the event of either Kelvin's or Eva's premature death

Long Term Care

- You have indicated that you would like to ensure that the family is provided for in the event of a long term care need
- The family does not have long term care insurance coverage

Health Care Insurance

- You both have current health care insurance coverage

Catastrophic Health Insurance

- You have indicated that you would like to ensure that the family is provided for in the event of a catastrophic illness
- The family does not have catastrophic health care insurance coverage

Property & Casualty (P&C) Insurance

- You have indicated that you would like to ensure that the family has adequate property and casualty coverage
- They currently have a homeowners policy

Excess Liability Policy (Umbrella Policy)

- You have indicated that you would like to ensure that the family has adequate excess liability coverage
- The family does not have a excess liability coverage

PROPOSED POSITION

Disability

- Consider revisiting the terms of the existing Buy/Sell Agreement in the event of a disability, especially Kelvin's; alter the terms, if necessary, and ensure the agreement is funded
- Consider having the business purchase Business Continuation Coverage in the event that Kelvin becomes disabled
- Consider purchasing the maximum available disability insurance policies for both Kelvin and Eva

Life

- Determine the viability of the existing term and whole life policies; replace them if warranted
- Consider purchasing an additional life insurance policy for Kelvin in the amount of US\$1,500,000

- Consider purchasing a Survivorship Life Insurance Policy in the amount of US\$5,000,000 insuring both Kelvin's and Eva's lives.

Long Term Care

- Consider purchasing Long Term Care Insurance in the amount of at least US\$300/day for four years for both Kelvin and Eva

Health Care Insurance

- Consider working with a health insurance specialist to review and optimize the appropriate coverage

Catastrophic Health Insurance

- If catastrophic coverage is not included in your current coverage, consider working with a health insurance specialist to obtain the appropriate coverage

Property & Casualty (P&C) Insurance

- Consider working with a P&C insurance specialist to optimize the appropriate coverage

Excess Liability Policy (Umbrella Policy)

- Consider working with a P&C insurance specialist to optimize the appropriate coverage

Retirement Planning

CURRENT POSITION

- You both wish to retire no later than when Kelvin reaches the age of 65, and wish to support a lifestyle incurring up to US\$90,000 per year of expenses
- As currently situated and planned, it is unlikely that you will attain your objective to be able to spend up to US\$90,000 per year

PROPOSED POSITION

- Consider developing a retirement spending budget to ensure all likely expenses are considered
- Consider reallocating your investments as outlined in the "Asset Management" section of this Summary
- Consider selling a portion of your WCSP holding just prior to retirement
- Consider selling a portion to Marcia
- Consider exploring the use of a 'Leveraged Employee Stock Ownership Plan (ESOP)' plan for 30% of your holdings after the purchase of the 40% owned by Kelvin's partners (this would provide liquidity to Kelvin).
- Consider fully funding Individual Retirement Accounts (IRAs) for both Kelvin and Eva
- Consider having Eva not stop working immediately after Marcia finishes school

Asset Management

CURRENT POSITION

- The current portfolio is not diversified and the anticipated returns do not warrant the amount of risk assumed by the family

PROPOSED POSITION

- Consider diversifying your portfolio's asset allocation to improve the risk/reward characteristics
- Consider systematically rebalancing your portfolio
- Consider retaining professional money managers for the majority of your portfolio

Tax Planning

CURRENT POSITION

- You have indicated that you wish to efficiently manage their tax situation
- Although your average tax rate is about 25%, your marginal tax rate ranges between 34% and 37%

PROPOSED POSITION

- Consider managing your portfolio for tax efficiency
- Consider using tax exempt bonds rather than taxable bonds in your portfolio
- Consider accelerating capital gains into the current year
- Consider fully funding Individual Retirement Accounts (IRAs) for both Kelvin and Eva (although a deduction may not be available, the tax deferred growth may provide an advantage after tax than simply making fully taxable investments)
- Consider making larger charitable contributions in high tax rate years

Estate Planning

CURRENT POSITION

- You have indicated that you both have 'simple wills' and have not updated the documents in 17 years
- You would like to make minimize estate taxes
- You would like to make sure that if Marcia inherits assets prior to age 30 that the assets are held in trust until at least age 30
- It is possible that Eva may inherit as much as US\$5,000,000 from her father

PROPOSED POSITION

Basic Estate Planning Package

- Consider including provisions to accommodate potential use of IRS Sec 6166 (relief provision to pay estate taxes in installments)
- Living Trusts
- Consider including language to accommodate a portion of retirement plans to be included in the Credit Shelter Trust (must also coordinate beneficiary designations accordingly)
- Consider keeping a large portion of the assets in trust after the death of the survivor (to provide creditor protections for Marcia as well as to ensure that she does not receive a large lump sum prior to age 30)
- Durable Powers of Attorney
- Advanced Health Care Directives (Living Wills) and Health Care Powers of Attorney
- Consider including a new US\$1,500,000 life policy insuring Kelvin's life
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- Consider speaking with Eva's father about leaving any inheritance to a trust for Eva's (Kelvin's and Marcia's) benefit, rather than an outright bequest to Eva.
- Carefully review your will, along with all trust provisions

Important Planning Assumptions

- State of Residence: CA
- Base Inflation Rate: 3.5%
- Return on un-invested Cash Surpluses: 2%
- Cash Surpluses are assumed to be allocated to a new 'Investment Portfolio' earning 6%

- Estate & Income Tax Law Assumptions: As legislated
- Risk Tolerance Questionnaire responses have been assumed
- Capital Market Assumptions have been assumed
- Home: Cost Basis US\$400,000 - Original Mortgage US\$350,000
- West Coast Solar Panels: 'S' Corp
- It has been assumed that the property tax rate on a second residence would be the same as that of the primary residence (the data provided is too low at .79% – it should be about 1.5-2.5%)
- The Beneficiary Designations on all Retirement Plans are assumed to be the spouse, then Marcia
- Eva's retirement plan administration expenses have been ignored (1% of contribution) and it is assumed that the return is net of all expenses
- It has been assumed that there is no disability or life insurance benefit in the retirement plans
- An annual salary increase for Kelvin is assumed to be 8%
- An annual salary increase for Eva is assumed to be 8%
- A US\$1,000/month expense for auto replacements has been added beginning at the time the current car loan is paid off
- A US\$1,000/month travel and entertainment expense has been added beginning immediately
- Eva's potential inheritance has not been factored into this plan

The Client's Goals, Objectives

Financial Management

- You want to maintain a cash reserve equal to six months of total expenses, not including taxes to be paid.
- Beginning in two years, you want to contribute US\$10,000 per year to help pay for four years of Marcia's education
- Eva wishes to continue teaching after Marcia leaves school; Kelvin does not expect her to do so.

Asset Management /Investment Planning

- Eva wants to purchase a second (holiday) property valued at US\$375,000 (in today's dollars) in two years. The inheritance from her mother's estate is being held in a money market savings account for this purpose.
- Eva prefers to have no mortgage on the property and needs at least US\$100,000 to furnish and decorate.

Risk Planning

- You want to ensure that, in the event of death or illness, in addition to your family being protected, the company is safeguarded.
- Kelvin wants recommendations to address concerns related to the possibility of his disability or premature death.

Tax Planning

- No specific tax objectives given except for a broad statement that Kelvin wants to reduce the amount of taxes he pays.

Retirement Planning

- Kelvin wants to retire at age 65 (the normal retirement age set under his pension scheme) if he can afford to do so.
- Eva does not know when she will retire from teaching. Kelvin would like her to retire in six years, at age 46, when Marcia leaves college. She is considering delaying retirement until Kelvin is 65 (and she is 63).
- You want to retire on at least US\$90,000 (after tax) per year combined, in today's dollars. This amount is to be adjusted annually for inflation.

Estate Planning

- Both of your estate documents are 17 years old. They are inadequate and in need of complete review.
- Kelvin wants any estate taxes payable to be eliminated or minimized.
- Kelvin wants Marcia to be involved in West Coast Solar Panels after her studies, but planning for this goal can wait until Kelvin sees how things unfold over the next several years.
- When Kelvin retires, he wishes Marcia to take over the company. As a result of this goal, Kelvin will no longer have any income from the company past his 65th birthday.
- In eight years, Kelvin wants to buy out the co-shareholders' interest in his company. There is a buy-sell agreement in place but the funding of the agreement has not yet been determined. The co-shareholders also work for the company (Kelvin owns 60 percent and the co-shareholders each own 20 percent of the shares). Kelvin expects the value of his co-shareholders stock to be worth US\$200,000 (in today's dollars). He anticipates the value of the shares to increase 11% annually.
- You wish for neither spouse to be financially disadvantaged by the other's death.
- You want the mortgage and other debts to be paid off upon the death of one spouse or both spouses.
- You both intend for Marcia ultimately to inherit, in total, the respective assets. However, Kelvin doesn't want Marcia to inherit your estates outright if something should happen to you both prior to Marcia reaching age 30.

The Client's current situation and concerns (issues)

Financial Management

Your cash reserve goal is to have six months of total expenses, not including taxes to be paid. Kelvin views part of Eva's money-market investment as an emergency fund for the family, but Eva does not. The money was an inheritance from her late mother. Eva wants to purchase a holiday home within two years, and the new home needs to be furnished and decorated appropriately. Perhaps when this is done, she would be willing to look at what is left over in a different way.

Kelvin is concerned that he will end up like his father, so he wants to save even more than he does now.

Asset Management

Kelvin has an issue with the investment in Trent Tires. He does not perceive it as a green investment. However, over the last five years, this investment produced one of the highest returns.

Risk Management

Kelvin is very concerned about the impact on his family if he were to become disabled or die. The business will struggle to survive without him, and his family will lose his income, potentially putting them under financial strain.

Estate Planning

Kelvin wants Marcia to have his shares of WCSP.

Eva is counting on an inheritance from her father. She sees this as her security during retirement. She is concerned about the state of her financial affairs if Kelvin were to die before her father. She also worries sometimes that the couple will not be able to enjoy retirement if she does not receive the expected inheritance from her father's estate.

II. COMPLIANCE

Disclosures

Disclosure statement

In accordance with the provisions of State of California, this disclosure statement provides information about me, my firm and the financial planning services we offer. It includes details about:

- The name of my firm and authorisation (licensing or registration details)
- The services provided
- How the business operates
- My Details and Qualifications
- The financial organisations with which I am able to place business
- The financial products I can advise the client about
- How I am paid
- Disclosures of actual and potential conflict of interest

Name of Firm and Authorisation Details (Licensing and or Registration details)

Name of firm, trading as Name (the Company), has been providing financial planning services since it was established in 1995. All shares in the Company are controlled by name of individual(s). They are also the Company Directors.

The Company's address is _____

Email: _____

Web: _____

Firm name is licensed / registered with the name of body under number:

The Services Offered

Business Operation

Financial Planner Details and Qualifications

Please note that all of our firm's financial planners, including me, keep their knowledge and skills up to date by completing at least 30 hours of Continuing Professional Development (CPD) every two years. CPD hours, which are subject to audit by the state regulatory authority, are earned by participating in approved courses, briefings, conferences, and educational activities.

Name of financial planner

Senior Financial Planner

Telephone: _____

Mobile phone: _____

Email: _____

Experience & Qualifications

Products and Providers we Use

Remuneration and Fee Structure

Declaration of Possible Conflict of Interest

Other important Disclosures

Dispute Resolution

In the event of a dispute, you should contact me or a Director of the Company. If the matter is not resolved, you should contact _____ at (address and detail of the regulatory body).

Professional Bodies

Professional Indemnity Insurance

Current insurance coverage meets all statutory and regulatory requirements.

Disclaimers

All information received from the client is assumed to be accurate and complete. As an example, this includes insurance information, asset valuations and other financial data on which my calculations are based.

I cannot be held responsible for any negative impact resulting from inaccurate or incomplete information provided by the client.

For example:

An inaccurate Capital Gains Tax calculation which results from not enough information about the business interest.

Declaration

We (Kelvin and Eva Lee) declare that this statement was materially accurate and up-to-date when it was provided to us.

III. PERSONAL INFORMATION, ATTITUDES, NEEDS, OBJECTIVES AND ISSUES

PERSONAL INFORMATION

Name	Kelvin Lee
Date of Birth /Id. No.	19 July (age 42)
Matrimonial Property System	Married: Out of community of property with the exclusion of the accrual system
Spouse	Eva Lee
Date of Birth/Id. No.	25 January (40)
Children	Marcia Lee (9 May, age 17)
Will	Client did not supply a copy
Trust	No trust
Educational provisions for Daughter	US\$10,000 per year for four years, beginning in two years' time
Term of Provisions for Disability	23 years (The term remaining until retirement)
Term until Retirement	24 years (Till age 65 years)
Term of provisions after Retirement	20 years (Till age 85 years)

ATTITUDES

General

As a couple, you have significantly different outlooks on financial matters.

Financial Management:

- Kelvin focuses more on saving and is reluctant to get into debt (based on family experience).
- Eva is more comfortable using credit for purchases.
- A desire to be financially independent drives Kelvin to save increasing amounts of money for his retirement years.
- Kelvin would like to see Eva be in a position not to have to work after Marcia finishes her schooling.
- Kelvin believes it is important that Marcia recognize the value of working for her money. As a result, he wants Marcia to work part-time while playing soccer.
- Eva expects to inherit a considerable amount from her father, upon his death.

Investments: Kelvin

- Kelvin believes humanity should take better care of the Earth. His interest in socially responsible investments reflects this belief. This is also one of the reasons why he and the two other shareholders started the company.
- Kelvin dislikes derivative-type investments.
- Kelvin wants to manage his own investments (our client discovery process shows his general investment knowledge as being average).
- Kelvin knows a lot about publicly traded green companies.
- Kelvin has an above average risk tolerance.

Investments: Eva

- Eva favors secure deposit and property investments (reflective of how her father made his fortune).
- Eva describes herself as being “not particularly knowledgeable” about investing, and wishes to avoid stock market losses.
- Eva is strongly opposed to tobacco industry investments.
- Eva wishes to enjoy her wealth in retirement, with minimal risk of losing it.
- Eva has below average risk tolerance.

Risk Planning

- Kelvin is not comfortable discussing death, and he does not like having to pay for insurance.
- Kelvin wants to ensure that Eva and Marcia are provided for in the event of his disability or premature death.
- Eva wants to ensure she and Marcia will be able to maintain their current lifestyle should anything happen to Kelvin.

Retirement Planning

- Kelvin wants to be financially secure in retirement, and is willing to work longer to achieve this.
- Eva is flexible about her date of retirement.

Tax Planning

- Kelvin would like to pay as little tax as possible.

Estate Planning

- Kelvin is of the opinion that people under 30 years of age cannot handle their own finances. This seems to contradict his feelings about managing his own investments.
- Eva is of the opinion that young people can responsibly handle their finances

CLIENT NEEDS, GOALS AND OBJECTIVES

In a financial planning context, goals and objectives have to be qualified and quantified (what is wanted, when, and at what cost.) Please remember that it is not possible to predict the future. Financial planning serves as a tool to help you achieve your goals and objectives.

Financial Management

- You both want to maintain a cash reserve equal to six months of total expenses, not including taxes to be paid.
- Beginning in two years, you want to contribute US\$10,000 per year to help pay for four years of Marcia's education
- Eva wishes to continue teaching after Marcia leaves school; Kelvin does not expect her to do so.

Asset Management /Investment Planning

- Eva wants to purchase a second (holiday) property valued at US\$375,000 (in today's dollars) in two years. The inheritance from her mother's estate is being held in a money market savings account for this purpose.
- Eva prefers to have no mortgage on the property and needs at least US\$100,000 to furnish and decorate.
- Kelvin does not perceive the investment in Trent Tires to be green. However, this has been one of the best performing investments over the past five years.
- The uncertain economic outlook for the next few years is likely to have an adverse impact on your financial planning. The potential impact of the current economic environment must be taken into account when considering investment and retirement planning.
- Property value growth is likely to continue being low in the foreseeable future. On the plus side, this may help Eva purchase a suitable holiday home for less money than previously expected.

Tax Planning

- No specific tax objectives given, except for a broad statement that Kelvin wants to reduce the amount of taxes he pays.

Retirement Planning

- Kelvin wants to retire at age 65 (the normal retirement age set under his pension scheme) if he can afford to do so.
- Eva does not know when she will retire from teaching. Kelvin would like her to retire when Marcia graduates from college in six years, when she will be 46. She is considering delaying retirement until Kelvin is 65 (and she is 63).
- You want to retire as a couple able to live on at least US\$90,000 (after tax) per year combined, in today's dollars. This amount is to be adjusted annually for inflation.

Estate Planning

- Your estate documents are 17 years old and are in need of complete review.
- Kelvin wants any estate taxes payable to be eliminated or minimized.

- Kelvin wants Marcia to be involved in West Coast Solar Panels after her studies, but planning for this goal can wait until Kelvin sees how things unfold over the next several years.
- When Kelvin retires, he wishes for Marcia to take over the company. If this goal is realized, Kelvin will no longer have any income from the company past his 65th birthday.
- In eight years, Kelvin wants to buy out the co-shareholders' interest in his company. There is a buy-sell agreement in place but the funding of the agreement has not yet been determined. The co-shareholders also work for the company (Kelvin owns 60 percent and the co-shareholders each own 20 percent of the shares). Kelvin expects the value of his co-shareholders stock to be worth US\$200,000 (in today's dollars). He anticipates the value of the shares to increase 11% annually.
- You wish for neither spouse to be financially disadvantaged by the other's death.
- You want the mortgage and other debts to be paid off upon the death of one spouse or both spouses.
- You both intend for Marcia ultimately to inherit, in total, your respective assets. However, Kelvin doesn't want Marcia to inherit your estates outright if something should happen to you both prior to Marcia reaching age 30.
- Eva is counting on an inheritance from her father. She sees this as her security during retirement.
- Eva is concerned about the state of her financial affairs if Kelvin were to die before her father. She also worries sometimes that the couple will not be able to enjoy retirement if she does not receive the expected inheritance from her father's estate.

Financial Management

- Kelvin views part of Eva's money market investment as an emergency fund for the family. Eva does not agree. Eva resolutely wants to purchase a holiday home in two years' time with the money, and the new home needs to be furnished and decorated appropriately. Perhaps when this is accomplished, Eva will be willing to consider any remaining money differently.
- Kelvin wants to continually increase savings because of his concern that the family is financially sound in retirement.
- The current organisation of your financial affairs has resulted in having an annual cash flow deficit (refer to the Cash Flow Statement). This deficit is primarily caused by inefficiencies in the current financial arrangements. These inefficiencies may compromise short- and long-term lifestyle and financial objectives. Among the inefficiencies is the use of expensive lines of credit concurrent with low-interest savings vehicles.

Risk Management

- You want to ensure that in the event of Kelvin's death or illness, in addition to the family being protected, the company is safeguarded.
- Kelvin is concerned about the impact on his family if he was to become disabled or die, and wants recommendations related to these possibilities. The business will struggle to survive without him, and his family will lose related income, potentially putting them under financial strain.
- The death of either one of you would have significant financial implications for the surviving spouse and Marcia. Both of you are worried that the family would not be able to continue enjoying your current standard of living and about potential impacts on the family's assets.
- Consideration should also be given to the impact on Kelvin's wealth should either of his business partners die. If the intention is that their equity in the company is transferred to Kelvin, the buy-sell agreement needs to reflect this, and they should include an arrangement to fund the agreement.
- Both the company and family would suffer financially if Kelvin were to become ill. If the illness is long-term, the company may need funds to recruit a temporary manager.

There are a few issues regarding Kelvin's business interest:

- Kelvin wants Marcia to have his shares in West Coast Solar Panels but she is currently too young to receive the shares directly if Kelvin should die. According to Kelvin, Marcia must be at least 30 years old to receive his business interest. Marcia knows little about the business and would not be able to manage it.
- The two other co-shareholders want to sell their respective interest when they retire in eight years. Kelvin does not want to do succession planning for his firm at this time. He is, however, quite concerned about getting the required funds to buy his partners' shares.
- The current WCSP shareholder agreement states that upon the death of any shareholder, the surviving shareholders are obliged to purchase the shares from the decedent's estate at fair market value. This conflicts with Kelvin's stated intention to have his shares pass directly to Marcia. This needs reviewing.

IV. ASSUMPTIONS

Your financial planning time horizon spans the next 50 to 60 years. To estimate your future financial situation as precisely as possible, we need to make some general assumptions. As these assumptions and parameters will significantly impact your financial situation over a 50- to 60-year time horizon, we have forecasted conservatively to increase the likelihood of a positive planning outcome for you both.

Financial Management

- Inflation rate – 6%
- Debt Interest rates:
 - Mortgages – 11%
 - Debt on vehicles – 11%
 - Credit card and over draft rates - 15%
- Devaluation of vehicles – 15%
- Growth on savings – 3%
- Annual salary increases for Kelvin and Eva – 8%

Asset Management

- Expected rates of return from investments by asset class (allowing for costs, fees and taxation where practicable)
- Expected standard deviation and correlations, by asset class
- Expected portfolio rates of return and risk levels
- Equities, fixed income instruments, and mutual funds
- Property – assumed increase in the market value of real estate (including future holiday home)

Risk Management

- Life expectancy factors
- Health factors
- Risk factors
- Both of you have adequate private health insurance.

Tax Planning

- Tax rules and rates
- Current Estate Duty rates (current legislation)
- Donation Tax rates (current legislation)

Retirement Planning

Pension: Kelvin:

- West Coast Solar Panels (WCSP) pays all administration and life assurance costs and the scheme includes “waiver” on disability. “Waiver” means that the premiums will continue to accrue into the pension scheme should Kelvin be unable to work due to health or disability causes.
- The actuary assumes growth on the pension investment will be at 5% after the costs.

Pension: Eva:

- Eva contributes 5% of her salary and her employer contributes 9% toward her pension.
- Growth on Eva’s pension is projected at 6%; this is reduced to 2% in real terms, by administration charges (1%) and for inflation (3%). We have assumed that her salary will receive cost of living increases.
- We have used a yield of 3.5% from the pension fund in retirement. This yield is based on annuity yields where the income rises with inflation and provides an ongoing income for a widow/er.
- The Beneficiary Designations on all Retirement Plans are assumed to be the spouse and Marcia.
- Growth in Assets until retirement: 7% p.a. (or a specific percentage if supplied)
- Growth in Assets after retirement: 6% p.a.
- We have assumed that Kelvin and Eva will retire when Kelvin turns 65 years (even though Eva is uncommitted).

Estate Planning

- Life expectancy
- Executor’s fees
- We have assumed that Kelvin will buy out his co-shareholders’ interest in the company West Coast Solar Panels in 2018
- Eva’s potential inheritance has not been factored into this plan

STRATEGIES AND ALTERNATIVES

FINANCIAL MANGEMENT

Income & Expenditure:

SUMMARY	KELVIN US\$	EVA US\$	JOINT US\$
Income	130,000	66,000	196,000
Liabilities	145,954	77,721	224,675
Liquidity (Shortfall)/Surplus	(15,954)	(11,721)	(27,675)

Strategies:

- Clearing debt

You are paying high interest rates on your credit card loans while using low-interest savings vehicles (e.g., bank savings accounts, money market funds, etc.). Over the long-term, this is likely to diminish your wealth substantially.

Kelvin currently has an annual shortfall of US\$15,954 and Eva has a shortfall of US\$11,721. You currently direct US\$51,504 each year for servicing and repayment of debt and your mortgage. You contribute US\$42,000 annually to savings. Combined, this equates to almost half (48%) of your total current net income.

The suggested strategy will require you to clear existing loans and debt, with the exception of the residential mortgage. The loans will be cleared using funds held in low-interest investments as set out in the following table. Table 1 and 2 indicate the existing loans and the strategy of clearing some of the personal debt.

- Kelvin must save less in the near term

Existing loans in 20XX			US\$418,000
Mortgage Family Home	Both	5% p.a. - assumed	350,000
Car loan	Kelvin	5% p.a. - assumed	32,000
Personal Credit	Kelvin	14.6% p.a. - assumed	1,000
Personal Credit	Eva	14.6% p.a. - assumed	15,000
Overdraft	Eva	14.6% p.a. - assumed	20,000

Personal debt	Owned by:	Amount p.a. US\$	Cleared from	Adjusted Investment Balance
Mortgage Family Home	Kelvin and Eva	34,800	Not cleared	
Car Loan	Kelvin	7,800	\$32,000 from Bank Savings Account	Savings Account \$13,000
Credit Card	Kelvin	1,200	\$1,000 from Bank Checking Account	Current Bank Account \$24,000
Overdraft	Eva	5,100	\$20,000 from Money Market fund	Money Market Fund \$630,000
Credit Card	Eva	2,604	\$15,000 from Money Market fund	Money Market Fund \$615,000
Total Personal Debt		51,504		
Total p.a. savings from debt cleared		16,704		

Establish an emergency fund

You have a cash reserve goal equal to the payment of total expenses (tax excluded) for a period of six months. The estimated amount will be approximately US\$93,000 (based on US exchange rates and taxes). The strategy will be to use cash already available and not save additional funds for this objective.

Buying a holiday home.

These figures are shown in Appendix D. Eva retains her investment in the money market fund to buy a holiday home for US\$375,000 and refurbish it (for \$100,000). The strategy will be that she buys the holiday home as soon as possible due to the positive economic climate for buyers of property.

University fees

You have been paying Marcia's school fees from current income and have only one more such payment (\$18,000 per annum) to make. From next year this payment can be used for meeting your objective to contribute US\$10,000 per year towards four years of Marcia's studies, beginning in two years.

RISK MANGEMENT/INSURANCE

Ensure sufficient liquidity in your estates when you both die. There will be a shortfall if Kelvin were to die first, because the policies and retirement fund benefits will not be available in the estate (based on US estate laws).

Strategies to rectify a shortfall in the estate can include:

- Cancel the beneficiary clause of one of the two life policies.
- The policy will then pay into the estate, providing the cash for payment of the estate liabilities and expenditures.
- Another life policy, paying to the estate, can be taken out.
- This will entail a monthly premium, putting pressure on cash flow. This may be mitigated by other strategies to resolve the existing cash flow shortfall.
- Have Eva continue to pay the liabilities if Kelvin is the first to die.
- Her inheritance plus the benefits from the life policies she will receive are sufficient to pay the liabilities. The questions with this strategy will be whether the income Eva can receive from the remainder of the capital (capital she inherits plus her own) will be sufficient and, secondly, whether she will want to take over the liabilities. (A discussion with Eva is needed prior to finalizing the recommendation on this.)

Selling the business.

- It is likely that if Kelvin dies his share in the business would be sold (neither Marcia nor Eva can take Kelvin's position at this stage). If this happens there will be sufficient cash in his estate. (A discussion with Kelvin and further detail is needed prior to finalizing the recommendation on this.)
- Eva has sufficient capital in her estate to pay all costs and expenditure if she were the first to die.

KELVIN

	Provisions for Death Beneficiated/Payable to:			Cash Value US\$
Premiums \$	Estate \$	Spouse \$	For the beneficiaries \$	
\$435		\$720,000 ¹	\$610,000 ²	351,000 ³
	70,000 ⁴			70,000
	225,000 ⁵			225,000
Total	295,000	720,000	610,000	646,000

	Liabilities at Death US\$
Mortgage	350,000
Personal Credit	1,000
Car loan	32,000
Estate costs and fees (if applicable)	
Total	383,000

EVA

	Provisions for Death Beneficiated/Payable to:			Cash Value US\$
Premiums \$	Estate \$	Spouse \$	For the beneficiaries \$	
	0	-	66,500 ⁶	500
	650,000 ⁷			
	7,000 ⁸			
Total	657.000		66,500	500

	Liabilities at Death US\$
Mortgage	350,000
Personal Credit	15,000
Overdraft	20,000
Estate costs and fees (if applicable)	
Total	385,000

Critical Illness

Your health insurance coverages were not evaluated, because of your assurances that this coverage was adequate. We suggest a thorough review by a competent insurance professional.

Disability

¹ This is the life and term insurance on Kelvin's death with Eva as beneficiary.

² The availability of retirement benefits in the estate differs by territory. For this example we assumed it will pay directly to the beneficiaries and will not be available in Kelvin's estate.

³ Retirement fund value plus cash value of life policy

⁴ This is the value of the bank savings account and bank checking account.

⁵ Invest in shares and mutual fund/unit trust. Plan on not using these assets for liquidity at death as the markets can be down at that stage creating investment losses when selling.

⁶ The fund value plus death value of one times annual salary.

⁷ This is the value of the money market fund.

⁸ This is the value of the bank checking account and the bank savings account.

In general, a disability is an illness or injury that prevents you from performing the regular requirements at your job or the inability to work at any job for which you are reasonably suited by education and experience.

Provide for shortfall at disability

- For this calculation, we assumed that Kelvin will not receive any salary from WCSP if he becomes disabled and cannot work. We further assumed that all debts must be paid off at disability; Kelvin will not be able to save monthly as he is currently doing. Money is also needed to cover monthly expenses.
- Eva has an even bigger shortfall at disability, if we assume that all debts must be paid off at her disability. (It can be argued that we do not have to pay for example the mortgage.) Kelvin will then have to pay the monthly premiums putting him under more pressure as his monthly cash flow is already under pressure as indicate above.

Kelvin

Contribution \$	Provision for Disability US\$
Employer 15,600 ⁹	610,000 ¹⁰
Other investments	
Units in Mutual Fund	75,000
Shares – Solar P	70,000
Shares – Trent Tires	80,000
Bank savings account	45,000
Bank checking account	25,000
Total	905,000

⁹ 12% by employer, no contribution by Kelvin

¹⁰ Retirement benefits have a disability payment of fund value plus two times annual salary.

	Total Debt \$	Yearly Expenses US\$
Mortgage	350,000	
Personal Credit	1,000	
Car loan	32,000	
Marcia's education	44,320	
Housing expenses		12,000
Taxes		3,500
Auto		1,000
Medical		2,200
Insurance		5,220
Total	427,320	23,920

SUMMARY DISABILITY	
Lump sum Capital Needs at disability (debt and Marcia's education requirements)	427,320
Capitalized value of income needed over the disability term	518,136
Total Capital Provisions @ disability	905,000
Surplus/(Shortfall)	(40,456)

Eva

Contribution US\$	Provision for Disability US\$
Eva 3,300 ¹¹	
Employer 5,940 ¹²	66,500
Other investments	
Money market	650,000
Bank checking account	5,000
Total	721,500

¹¹ 5% Contribution by Eva

¹² 9% Contribution by her employer

	Total Debt US\$	Yearly Expenses US\$
Mortgage	350,000	
Personal Credit	15,000	
Overdraft	20,000	
Marcia's education	44,320	
Food/Clothing		17,750
Total	429,320	17,750

SUMMARY DISABILITY	
Lump sum Capital Needs at disability (debt and Marcia's education requirements)	429,320
Capitalized value of income needed over the disability term	383,235
Total Capital Provisions @ disability	721,500
Surplus/(Shortfall)	(91,055)

Kelvin should consider adequate income continuation insurance in case of loss of income due to a disability. Current disability provisions plus investment income will not be sufficient if Kelvin is disabled and cannot work anymore.

Business Insurance

- Illness or disability is also a concern for the operation of WCSP
- Kelvin is the major shareholder of the company and plays an important strategic role within the company.
- We suggest WCSP take out a keyman insurance policy to protect the company in the event of Kelvin's illness or disability. The policy will provide the company sufficient liquidity to fund the cost of a replacement manager for Kelvin.

Short-term Insurance

No strategies included.

We assume that your short-term insurance coverages are in place and cover at least the following risk categories:

- The risk that any owned building or their contents will be damaged by a covered event or peril, such as fire, rain, wind, hail, or other natural occurrence.
- The risk that personal property, either in the home or in another location, will be stolen or damaged by others.
- The risk of liability, or being held legally responsibility for another person's losses.

We suggest additional review of your property insurance is needed to assure adequacy.

ASSET MANAGEMENT/INVESTMENT PLANNING

Investment Risk profile

Kelvin's risk profile shows him as having above average tolerance for risk and Eva's shows below average tolerance for risk. We need to establish your capacity to take on the risk required to reach your financial planning objectives.

Asset Allocation

Asset type	Kelvin	%	Eva	%	Combined	%
Cash					727,000	55,82
Bank Savings Accounts	70,000	10,85	7,000	1,06		
Money market Fund			650,000	98,86		
Bonds	0		0		0	
Property	0		0		0	
Equities					575,500	44,18
Retirement Fund	350,000	54,26	500	0,08		
Green C Large Cap fund	75,000	11,63				
Solar P One	70,000	10,85				
Trent tires	80,000	12,40				
Total Assets	645,000	100	657,500	100	1,302,500	100

Please note that the primary residence (family home), personal assets (vehicles and household content) and business assets were not taken into account for calculating the above asset allocation for investment purposes. None of these assets are currently being used as such and it is unlikely they will become usable to meet investment objectives. The primary residence will possibly be sold at Kelvin's retirement to buy a smaller house, but this is not currently an objective or part of the discussion. The business can be taken into account as part of the investment portfolio but Kelvin has been clear that, when he retires, he wants the business to go to Marcia.

Investment strategies

- Investment strategies must be developed for Kelvin to meet the objective to purchase the business interests when the WCSP partners retire (not enough information is available to analyze this and develop strategies). (A discussion is needed with Kelvin on the need to start planning for this now.)
- Develop a strategy to save more if there are not sufficient funds available for income to meet both of your retirement objective to retire with at least US\$90,000 per year (in current dollars) after tax.
- Strategies on an alternative investment for Trent Tires as Kelvin is of the opinion it is not "green" enough.
- Strategies to diversify Kelvin's investment portfolio (currently about 10% is in cash and the rest in shares).

Strategy for Eva to buying a holiday house.

Strategies to diversify Eva's investment portfolio (currently about 99% is in cash related assets).

TAX PLANNING

One of Kelvin's objectives is to minimize his tax liability.

We suggest a complete review of your tax situation by a competent tax specialist.

RETIREMENT PLANNING

SUMMARY OF APPLICABLE INFORMATION

RETIREMENT	APPENDIX I
Income Required at Retirement (FV) ¹³	364,404
Total Capital Needs (income) over the retirement period	6,675,895
Total Capital Provisions @retirement	5,342,177
Shortfall at retirement	1,333,718

- There is currently a shortfall at retirement. We can discuss several strategies to resolve this:
- Kelvin can decide to work longer and retire later than 65.
- Kelvin can decide to sell part of the business to Marcia rather than his current idea of giving it all to her. This amount will make the shortfall smaller.
- Both of you can start to save more.
- Both of you can work to reduce after retirement expenses.

ESTATE PLANNING

STRATEGIES:

- Sufficient financial provision for yourself and your dependants during your lifetime.
- Sufficient financial provision for the maintenance of your dependents during the winding up of either one of your estates, and during their lifetime(s) of the dependent(s).
- Protection of the assets in your estate against the possibility of a forced sale by providing sufficient liquidity during the winding up of the estate.
- Optimal saving of the costs in the estate.
- Practical enforcement of your wishes and needs as set out in your will.
- Flexibility of the estate plan to ensure that future adjustments required by changing financial and family needs and circumstances can be accommodated.
- Succession planning for your business, WCSP.
- Buying shares from partners.
- Strategies are needed to fund the purchase of Kelvin's co-shareholders' shares in WCSP when they retire.
- Strategies are also needed to fund the purchase of Kelvin's co-shareholders' shares in case one of them dies.

Note: Kelvin said that he does not want to start planning for above as he still has eight years to do this. However, we recommend that Kelvin not wait, but rather start planning for this as soon as possible.

¹³ The required yearly income recalculated to a future value to establish the value at date of retirement.

SYNTHESIS AND RECOMMENDATIONS

FINANCIAL MANAGEMENT

Pay down debt

- We recommend that you pay off the car loan, credit cards and overdraft using the bank savings account, bank current account and money market fund. You will pay debt to the value of US\$68,000¹⁴ and will save expenses of US\$16,704 per year (\$1,392 per month).
- We recommend that Kelvin stop saving the US\$24,000 in the savings account. It is a low interest saving and not good for long-term growth. He should stop these contributions to the saving account for the next two to three years to improve his cashflow shortfall.

The above two suggestions will ensure that Kelvin has a positive cashflow position. There will be sufficient funds left in Kelvin's bank savings account and current bank account (US\$13,000 and US\$24,000, respectively). There will still be a small shortfall in Eva's cashflow position but your joint cashflow as a couple will be positive. Eva will have sufficient funds (US\$615,000) to buy the holiday house and to refurbish it.

Emergency Fund

We recommend that you both commit to contribute at least US\$34,000 each (total \$68,000) to the cash reserve goal. Without saving anything further, Kelvin can use his bank savings account and current bank account for this. There will be enough available for this purpose even after payment of the loans and personal debts as suggested above. Eva can use part of her money market fund for this purpose, leaving sufficient funds to buy the holiday house and to refurbish it. This will meet your goal of funding six months' worth of expenses (\$64,970¹⁵ excluding tax).

Buying a holiday home.

We recommend that Eva not wait for two years but buy the holiday home, but rather buy it as soon as possible due to the positive economic climate for buyers. Eva will have sufficient funds in the money market fund to buy a holiday home for US\$375,000 and refurbish it for US\$100,000 according to her original objective. She will still have US\$106,000¹⁶ of her money market investment left.

University fees

We recommend that from next year you continue to save the money used for Marcia's school fees for her university fees. This will be sufficient to pay US\$10,000 per year for four years as a contribution toward her studies.

Buying shares from partners.

Kelvin said that he does not want to start planning for this as he still has eight years to do this. We recommend that Kelvin not wait but start planning how to achieve this objective as soon as possible.

RISK MANAGEMENT

We believe that we need to discuss the insurance needed to cover the risk of loss of income in case of disability, as the current disability provisions plus investments will not be sufficient if Kelvin becomes disabled and cannot work anymore.

Business Insurance

- Illness or disability is also a concern for the operation of WCSP

¹⁴ Car loan of Kelvin, personal credit of both, and overdraft of Eva

¹⁵ Calculated after the implementation of above cash flow recommendations

¹⁶ \$650,000 – (\$20,000 + \$15,000 + \$34,000 + \$475,000)

- Kelvin is the major shareholder of the company and plays an important strategic role within the company.
- We suggest WCSP take out a keyman policy to protect the company in the event of Kelvin's illness or disability. The keyman policy will ensure that the company has sufficient liquidity to fund the cost of a replacement manager.
- No Income protector
- Keyman Insurance
- Buy and Sell funding
- Trauma Cover
- Disability

ESTATE PLANNING

- Your will is 17 years old; we need to review the will and draft a new one or refer the matter to an attorney or trust company to assist you in doing so.
- Consider the establishment of a trust to manage risk and estate duties
- Business Interest – We suggest a thorough review as soon as possible.
- Take out another life policy on Kelvin, with the estate as the beneficiary. After paying off your debts and not putting funds into the savings account, there will be sufficient cash flow to pay the premiums of this policy.
- Provisions for spouse and dependents

IMPLEMENTATION

The following table describes our implementation checklist, and describes what will be done, by whom and when.

Implementation checklist

Recommendation (What)	Why	Who	Where	When	How	How Much

PERIODIC REVIEWS

We will conduct periodic reviews with you to monitor how you are progressing toward your goals and objectives and to handle issues, concerns and opportunities that may impact your ability to achieve your financial planning objectives. During our periodic review process, we will monitor the following:

- whether there are any economic , personal or goal changes influencing the financial plan;
- the progress of implementing the recommendations to date;
- the viability of the products and services recommended in the financial plan and their continued usefulness to meet your needs;
- your progress toward achieving your goals and objectives.

Review Process

What must be reviewed	The frequency or time of review	Person responsible for review	Method of review and communication process
The newly drafted financial plan	Within one month after receiving the	Financial planner	In person meeting, arranged via e-mail by

	financial plan		our office
Products	On-going	<ul style="list-style-type: none"> Financial planner, in coordination with other product or service providers Client 	Client monitors personal, life and economic factors that may have an influence on existing financial strategies – You can inform us via e-mail or telephone Financial planner and other product or service providers monitor the economy and the markets– we will inform you via e-mail, telephone or we will arrange an in person meeting to discuss
The financial plan Implementation Viability of products and services	12 months from the date of agreeing on the final financial plan	Financial planner	In person meeting, arranged via e-mail by our office

APPENDICES

- A. ASSETS AND LIABILITIES
- B. INCOME AND EXPENDITURE

APPENDIX A – NET WORTH POSITION

Personal Balance Sheet									
Assets (US\$)					Liabilities (US\$)				
	Kelvin	Eva	Joint			Kelvin	Eva	Joint	
Lifestyle/ Personal Use					Lifestyle				
Primary residence Owner occupied			450,000		Mortgage			350,000	
Vehicles 1	40,000				Car loans	32,000			
Vehicle 2		25,000			Overdraft		20,000		
Household Contents/Personal Effects			205,000		Other personal credit	1,000	15,000		
Sub Total	40,000	25,000	655,000		Sub Total	33,000	35,000	350,000	
Cash / Cash Equivalent									
Bank current account	25,000	5,000							
Bank Savings account	45,000	2,000							
Investment									
Money market fund		650,000							
Green C Large Cap Unit Trust	75,000								
Shares in Solar P One	70,000								
Shares in Trent Tires	80,000								
Retirement Funds	350,000	500							
Sub Total	645,000	657,500							
Business									
West Coast solar Panels (private company)	600,000								
Sub Total	600,000								
Policies									
Surrender value	8,000								
Sub Total	8,000								
Total Assets	1,293,000	682,500	655,000		Total Liabilities	33,000	35,000	350,000	
Net Worth	1,260,000	647,500	305,000						

APPENDIX B – CASHFLOW POSITION

Personal Cash Flow Statement before recommendations			
Income/Cash Inflows	Kelvin	Eva	Joint
Salary (before tax)	130,000	66,000	196,000
Investments (no interest or dividends from investments are reflected - it is assumed they are accumulated)			
Total income	130,000	66,000	196,000
Expenditure/Cash Outflows			
Income Tax (assumed)	44,614	20,587	
Retirement Plan contributions		3,300	
Saving Contributions-savings account	24,000		
Green C Large Cap	18,000		
Charitable Contributions		1,980	
Housing expenses	15,500		
Food/Clothing		17,750	
Transportation	1,000		
Loan Payments			
Vehicles	7,800		
Bank account and credit card payments	1,200	2,604	
Overdraft		5,100	
Mortgage			34,800
Medical Expenses	2,200		
Insurance Premiums	5,220		
Education			18,000
Personal expenses	119,554	51,321	
Joint expenditure			52,800
Plus joint expenditure	26,400	26,400	
Total expenses	145,954	77,721	
Current Surplus/Deficit	(15,954)	(11,721)	
Total Joint Surplus/Deficit			(27,675)

Personal Cash Flow Statement after recommendations			
Income/Cash Inflows	Kelvin	Eva	Joint
Salary (before tax)	130,000	66,000	196,000
Investments (no interest or dividends from investments are reflected - it is assumed they are accumulated)			
Total income	130,000	66,000	196,000
Expenditure/Cash Outflows			
Income Tax (assumed)	44,614	20,587	
Retirement Plan contributions		3,300	
Saving Contributions-savings account	0		
Green C Large Cap	18,000		
Charitable Contributions		1,980	
Housing expenses	15,500		
Food/Clothing		17,750	
Transportation	1,000		
Loan Payments			
Vehicles	0		
Bank account and credit card payments	0	0	
Overdraft		0	
Mortgage			34,800
Medical Expenses	2,200		
Insurance Premiums	5,220		
Education			18,000
Personal expenses	86,534	43,617	
Joint expenditure			52,800
Plus joint expenditure	26,400	26,400	
Total expenses	112,934	70,017	
Current Surplus/Deficit	17,066	(4,017)	
Total Joint Surplus/Deficit			13,049