

Endnotes

#1 Advice Regarding Cash Reserves:

Future Value if all remains in bank account	versus	Future Value if \$200,000 invested in 60% stock/40% bond account	plus	Future Value of \$50,000 remaining in bank account
<p>(\$250,000.00) Present Value 15 number of yrs 0.30% rate \$261,489.35 Future Value</p>		<p>(\$200,000.00) Present Value 15 number of yrs 6.60% rate \$521,660.64 Future Value</p>		<p>(\$50,000.00) Present Value 15 number of yrs 0.30% rate \$52,297.87 Future Value</p>
<p>\$573,958.51 future value invested account plus bank account <u>\$261,489.35</u> future value, all remaining in bank account \$312,469.16 advantage</p>				

#2 Advice Regarding the payoff of a mortgage

Future Value of account if mortgage & account are retained	versus	Future Value of account if mortgage is paid off, and pmts are invested
<p>(\$300,000) present value 6.6% rate \$0.00 payment 30 number of yrs \$2,040,974 Future Value</p>		<p>\$0 present value investment account 6.60% rate (\$1,432) monthly investment 30 number of years \$1,615,463 Future Value</p>
<p>\$2,040,974 Future value of account if retained <u>\$1,615,463</u> Future value of account if mortgage is paid off and payments are invested \$425,511 advantage</p>		

#3 Advice Regarding Choice of Account Type

Net withdrawals if Roth IRAs are used	versus	After tax Net Withdrawals if traditional IRAs are used	plus	future value of tax savings invested into a taxable account when contributing to traditional IRA
<p>(\$13,000) annual contribution 6.60% rate 15 number of yrs \$316,787 Future Value \$0 Tax on Withdrawal \$316,787 Net Withdrawals</p>		<p>(\$13,000) annual contribution 6.60% rate 15 number of yrs \$316,787 Future Value \$47,518 tax on withdrawals \$269,269 Net withdrawals</p>		<p>(\$5,148) annual tax savings 6.06% after-tax rate* 15 number of yrs \$120,401 Future Value \$13,353 realized gain upon liquidat \$0 capital gains tax</p>
<p>\$389,670 Net Withdrawals from Traditional IRAs <u>\$316,787</u> Net Withdrawals from Roth IRAs \$72,883 advantage</p>				

*after tax rate calculation

assumptions		results	
debt securities exposure	40.00%	overall account int/ord div rate	1.320%
equity securities exposure	60.00%	reduction due to tax on int/ord div	0.523%
before tax rate	6.60%		
interest & ordinary dividend component	3.3%	overall account LT capital gains rate	1.800%
long term capital gain component	3.0%	average realized LT cap gains	0.072%
turnvoer rate, equity securities	4.0%	reduction due to tax on LT cap gains	0.014%
ordinary income tax bracket	39.6%		
capital gains rate	20.0%	total reduction due to tax	0.537%
		after tax rate	6.063%

#4 Advice regarding Roth 401k conversion

After tax future value
of 401k

versus

After tax future value
of converted Roth
401k

<p>(\$45,000) present value 6.60% rate 35 number of yrs \$421,420 Future Value <u>\$166,882</u> tax upon withdrawal \$254,537 Net withdrawal</p>	<p>(\$38,250) present value 6.60% rate 35 number of yrs \$358,207 Future Value <u>\$0</u> tax upon withdrawal \$358,207 Net withdrawal</p>
<p>\$358,207 Net Withdrawal from Roth 401k <u>\$254,537</u> Net Withdrawal from Traditional 401k \$103,669 advantage</p>	

#5 Advice regarding Recharacterization of a Roth IRA Conversion

Taxes paid on a
\$500,000 Roth IRA
Conversion in the
39.6% bracket

versus

Taxes paid on a Roth
Conversion following
a Rcharacterization of
\$350,000 in a 39.6%
bracket

<p>\$500,000 Conversion \$198,000 tax</p>	<p>\$350,000 Conversion \$138,600 tax</p>
<p>\$198,000 Tax on oridignal Conversion <u>\$138,600</u> Tax on recharacterized amount \$59,400 advantage</p>	

#6 Advice Concerning Company Stock

Entire 401k rolled to
IRA; entire amount
withdrawn at 39.6%

versus

Entire amount of 401k
distributed "in-kind",
basis rolled to IRA
within 60 days, NUA
shares liquidated at
20%
cap gains rate

<p>\$1,000,000 IRA rollover 39.60% tax bracket <u>\$396,000</u> total tax</p>	<p>\$200,000 basis in 401k company stock \$200,000 IRA rollover \$79,200 tax on IRA withdrawals \$800,000 net unrealized appreciaiton (NUA) \$160,000 tax on sale of NUA shares <u>\$239,200</u> total tax</p>
<p>\$396,000 Tax resulting from entire IRA rollover strategy <u>\$239,200</u> Tax resulting from NUA strategy \$156,800 advantage</p>	

#7 Advice concerning life insurance coverage

Future value of
account if Insurance
policy retained

versus

Future value of
account if insurance
policy is cancelled and
premium amounts
invested

<p>(\$320) monthly premium \$0 Future Value</p>	<p>(\$320) monthly deposits 10 number of yrs 6.60% rate \$54,482 future value</p>
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\$54,482 Future value of account without insurance
 \$0 Future value of account with insurance
\$54,482 advantage

#8 Advice regarding a deferred annuity

Future value of current annuity	versus	Future value as after penalty is paid on the surrender of the existing annuity, and exchanged tax
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<p>(\$700,000) Present value 7.6% gross rate of return -3.5% costs 4.1% net return 20 number of yrs \$1,563,553 Future Value</p>	<p>(\$700,000) Present value existing annuity <u>\$35,000</u> surrender charge (\$665,000) Present value new annuity 7.6% gross rate of return -1.5% costs 6.1% net return 20 number of yrs \$2,173,348 Future Value</p>
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\$2,173,348 Future Value if annuity is exchanged to new annuity
\$1,563,553 Future value if current annuity is retained
\$609,795 advantage

#9 Advice regarding long term care insurance

Long Term Care Insurance policy is retained and premiums paid for 25 years	versus	Long Term Care policy is cancelled and premium amounts invested. The account is then used to pay LTC costs
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<p>(\$9,000) annual premium \$500,000 long term care benefit (\$500,000) long term care cost \$0 terminal account value</p>	<p>(\$9,000) annual investment 6.60% rate 25 number of yrs \$537,588 Future Value account (\$500,000) long term care cost \$37,588 terminal account value</p>
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\$37,588 Terminal value if LTC policy is cancelled
\$0 Terminal value if LTC policy is retained
\$37,588 advantage

#10 Advice regarding equity exposure

Future Value of account investing \$25,000 per year into bonds	versus	Future Value of account investing \$25,000 per year into a 60% stock/40% bond portfolio
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<p>(\$25,000) deposits 3% rate 25 number of yrs \$911,482 Future Value</p>	<p>(\$25,000) deposits 6.60% rate 25 number of yrs \$1,493,300 Future Value</p>
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\$1,493,300 60% stock/40% bond account
\$911,482 100% in bond account
\$581,818 advantage

#11 Advice regarding charitable gifts

\$10,000 cash gifts per year, capital gains paid on stock sale	versus	\$10,000 shares of appreciated stock gifts per year
\$200,000 value of stock \$40,000 cost basis of stock \$160,000 long term capital gain 20% capital gains rate \$32,000 Capital Gains tax \$32,000 Capital gains paid on sale of stock \$0 Capital gains paid on gifted stock \$32,000 advantage		\$200,000 value of stock \$200,000 stock gifts to charity 0% charity capital gains rate \$0 capital gains tax

#12 Advice regarding estate tax

No Credit Bypass Trust or portability	versus	Credit Bypass Trust or Portability
\$12,000,000 Joint Net Worth \$6,000,000 Gross estate 1st to die \$0 Credit Bypass (\$6,000,000) Marital Deduction (\$2,012,000) WA state exemption \$0 State Tax 1st to die (\$5,340,000) Federal Exemption \$0 Federal Tax 1st to die \$12,000,000 Net Worth 2nd to die \$12,000,000 Gross Estate 2nd to die (\$2,012,000) Wa state exemption 9,988,000 Wa taxable estate \$1,687,600 State Tax (\$5,340,000) Federal exemption \$4,972,400 Federal taxable estate \$1,988,960 Federal Tax \$3,676,560 TOTAL TAX		\$12,000,000 Joint Net Worth \$6,000,000 Gross estate 1st to die \$5,340,000 Credit Bypass \$660,000 Marital Deduction (\$2,012,000) WA state exemption \$442,480 State Tax 1st to die (\$5,340,000) Federal Exemption \$0 Federal Tax 1st to die \$6,660,000 Net Worth 2nd to die \$6,660,000 Gross Estate 2nd to die (\$2,012,000) Wa state exemption \$4,648,000 Wa taxable estate \$666,640 State Tax (\$5,340,000) Federal exemption \$653,360 Federal taxable estate \$261,344 Federal Tax \$927,984 TOTAL TAX
\$3,676,560 Total estate tax without credit bypass or portability \$927,984 Total estate tax with credit bypass or portability \$2,748,576 advantage		

#13 Advice regarding the ownership of life insurance

life insurance policy owned personally	versus	Life Insurance policy owned by Irrevocable Trust
\$40,000,000 Net Worth \$10,000,000 LI Death Benefit \$50,000,000 Gross Estate \$23,436,560 Total Tax		\$40,000,000 Net Worth \$10,000,000 LI Death Benefit \$40,000,000 Gross Estate \$18,236,560 Total Tax
\$23,436,560 Tax with Personally Owned Life Insurance \$18,236,560 Tax with ILIT Owned Life Insurance \$5,200,000 advantage		

#14 Advice regarding Social Security Benefits

Both take Social Security retirement benefit early at age 62	versus	Husband files and suspends at full retirement age,, wife takes restricted benefit; at age 70 husband switches to his own benefit	
			\$1,872 husband benefit (62) \$1,629 wife's benefit (62) \$1,801,459 cumulative lifetime bene
			\$1,379 wife's restricted benefit at age 66 \$3,533 wife's own benefit at age 70 \$4,096 husband's benefit at age 70 \$2,547,792 cumulative lifetime benefit
			\$2,547,792 Cumulative lifetime benefit, optimal strategy <u>\$1,801,459</u> Cumulative lifetime benefit, both take early benefit at age 62 \$746,333 advantage

#15 Advice regarding a change in risk tolerance

Retreating to bonds after a market drop	versus	Staying the course	
			(\$1,000,000) beginning value \$300,000 market loss (\$700,000) PV after loss 3% subsequent ROR 5 number of yrs \$811,492 Future Value
			(\$1,000,000) beginning value \$300,000 market loss (\$700,000) PV after loss 6.6% subsequent ROR 5 number of yrs \$963,572 Future Value
			\$963,572 Future Value, staying the course <u>\$811,492</u> Future Value, retreating to bonds \$152,080 advantage