RX WEALTH PLAN

Bill and Mary Sample

April 20, 2x21

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IMMEDIATE ACTION ITEMS

Category	Action Item
Cash Flow Plan	• Develop a short-term emergency fund of $60,000 and $80,000. • Maximize Mary's 401K contribution by increasing it approximately $14,000. • Increase contributions to business retirement accounts by $9,000 per year using Solo 401K. • Contribute $7,000 to Roth IRA for Bill and Mary through Back Door Contributions. • See Current vs. Proposed Savings Chart below. • Decreasing monthly living expenses from $29,000 to $24,400 and save the $4,600 each month to reach retirement goals. • Pay off high interest debt first, Refinance mortgage.
Tax Plan	• Contribute extra $9,000 to Solo 401K plan. • Hire Children to work part-time in your business. You can shelter up to $12,000 each from Federal income tax. Since you are an S Corp, their wages are subject to payroll taxes. • Children can set up Roth IRAs with their wages. • Bill and Mary can contribute $7,000 to Roth IRA through back door contributions. • Mary to increase her 401K plan contribution, pre-tax. • Consolidate all SEP IRAs and 401K plans into Solo 401K Plan. This will allow for back door Roth IRA contributions without tax.
Retirement Plan	• Implement a Solo 401K vs. SEP IRA Plan.

	• Establish a Roth IRA for Bill and Mary. • Rx Wealth will help establish Solo 401K plan. Will prepare necessary paperwork.
Asset Allocation, Location & Investment Plan	• Implement a diversified, market-based asset allocation. • Reduce single stock selection and return risk. • Implement a low cost, passive investment strategy across all investment assets and accounts. • Invest more conservative at approximately 60% stock allocation. • Develop an asset allocation strategy for Mary's 401K.
Asset Protection & Insurance Plan	• Evaluate current life insurance coverage and carrier. See details below. • Recommend replacing Northwestern Mutual $500,000 term policy on Bill to reduce premiums. Rx will work through underwriting. • Consider adding $1,500,000 additional term coverage on Bill and eliminate the high-cost Northwestern Mutual Whole Life Policy. • Conduct a detailed review of your current property & casualty insurance. Making sure appropriate uninsured motorist, liability and excess liability coverage is in place. • Confirm with Bill any disability insurance. • Review asset titling for asset protection.
Business Plan	• Hire children to do part-time work. • Rx Wealth Advisors will provide annual tax and business consulting for a stated annual fee. • Make sure we are maximizing business deductions.
Estate Plan	• Implement new Wills & Powers of Attorney • Since you are under the lifetime Federal estate tax exemption, no need for Federal estate tax planning. • Make sure we have proper income tax basis planning.

	• Review all beneficiary designations to make sure they are appropriate and meet your desires.

FUTURE ACTION ITEMS

Category	Action Item
Cash Flow Plan	• Maintain emergency reserve. • Evaluate lifestyle spending and future savings goals. Consider reduce lifestyle expenses currently and increasing savings rate. • Consider maximizing a cash balance plan for retirement. Approximately $277,000 per year.
Tax Plan	• Consider high deductible health plan to maximize HSA account contributions, if possible. • Consider contributing extra $277,000 to cash balance retirement plan. • Consider establishing a Donor Advised Fund for bunching of charitable deductions in a given year.
Retirement Plan	• Consider a cash balance plan for business. • Continue maximizing Solo 401k contribution. • Bill & Mary to wait until age 70 to file for social security.
Asset Allocation, Location & Investment Plan	• Evaluate asset allocation annually and rebalance, if necessary. • Maintain passive, market-based investment allocation focusing on low-cost investments. • As taxable investments build, annually review asset location strategy for tax planning.
Asset Protection & Insurance Plan	

	• Evaluate Northwestern Mutual whole life policies for children. • Consider using variable or index universal life policies for children versus whole life policies. • Consider purchasing term insurance on children out of college to maintain insurability. • Mary's Protective policy will expire in 2027. Evaluate getting underwriting and replacement coverage before 2027. • Consider a life insurance policy with long-term care rider for Bill and Mary.
Business Plan	• Annual review of cash flow and business strategies. • Determine succession plan, if any.
Estate Plan	• Review current estate documents and plan in 2020. • Evaluate estate plan to save Pennsylvania inheritance taxes. • Annual review of beneficiaries.

GOALS & ASSUMPTIONS

1. Goals:

a. Bill to continue to work for foreseeable future.

b. Maintain current lifestyle. Not concerned with leaving children large inheritances.

c. Desires to give children a head start in life.

d. Want to pay for private school education and college.

e. Want to provide their children with financial literacy.

2. Assumptions:

a. Bill retires at Age 80 and Mary at Age 70. This is a significant assumption. If Bill cannot sustain work till 80; then, a significant lifestyle adjustment more than likely is needed.

b. Bill and Mary continue to make and spend the same amount of money until their retirement.

c. Bill's alimony payments stop in 2019, which will allow for additional money to be invested. It is assumed these funds are invested in a taxable account.

d. Other than Bill's SEP-IRA contributions of $54,000 and Mary's 401K contribution of $12,000, all other income is spent on lifestyle.

e. The only current savings in Bill's $54,000 to SEP-IRA and Mary's $12,000 to 401K. All other income net of taxes is consumed.

f. In the cash flow projections, assumed there is excess cash flow equal to the after-tax value of the alimony no longer needing paid.

g. The after-tax value of alimony that stopped at end of 2018 will be saved.

h. Investment rates of returns are based on historical performance and there is no guarantee of future performance.

i. Plan is based on the above assumptions and other assumptions, such as tax rates, inflation detailed in the analysis section. Should any of these assumptions change or not be accurate, the plan as set forth will be inaccurate. The plan is meant for planning purposes only,

CASH FLOW PLAN

1. ***Emergency Fund***: In an effort to reduce the impact of unforeseen events, we recommend maintaining an emergency fund of at least $60,000 to $80,000. Additionally, this an emergency reserve can be backstopped by a line of credit that is available to draw for short term cash needs, so long as, a discipline exists to pay down quickly after any draw.

2. ***Where You Should Spend Your Cash First:*** We recommend your cash be prioritized as follows:

   a. Continue to max out company retirement plans for Bill and Mary.

b. Contribute to Roth IRAs.

c. Build emergency reserve.

d. Consider cash balance plan contributions for business.

e. Efficiently pay down debt.

f. On a year-to-year basis, large non-recurring expense should be identified and cash savings occurring before expense.

3. ***Debt Management:*** We recommend working on paying off your high-rate debt payments first if we decide to allocate money to extra debt paydown. However, most of your debt is tax deductible, be it business or residential. Consider refinancing mortgage to 15 years with significantly lower rate.

4. ***Lifestyle Spending:*** It is proposed as part of the cash flow projections that you consider reducing your monthly lifestyle expenses by $4,600 and save the money. This savings is not proposed in the chart below. However, it is shown as part of the cash flow projection in the detailed analysis section.

5. ***Current versus Proposed Savings Plan***:

Savings Vehicle	Current Plan	Proposed Plan
SEP-IRA	$54,000	$0
Solo 401K Plan	$0	$63,000
UPMC 401K	$12,000	$26,000
Roth IRA	$0	$14,000
Taxable Account	$0	$20,000
TOTAL Annual Contribution	**$67,000**	**$123,000**

Note: The plan is based on saving the after-tax alimony payments that ended in 2018. Does not include the savings from a proposed lifestyle reduction.

ASSET ALLOCATION, LOCATION & INVESTMENT PLAN

1. ***Asset Allocation:*** Based on the amount of risk you should take, your goals, time available to invest and the size of your investment dollars, we recommend that you invest 60% of your money in stocks and 40% in bonds. This may be subject to change in our final proposal. Additionally, we recommend that you eliminate or, at least significantly reduce, your single stock exposure.

   Below is our recommended portfolio versus your current portfolio.

Asset Class	Your Portfolio	Recommended Portfolio
U.S Equities	67.2%	40%
International Equities	12.2%	15%
International Emerging Markets	1.8%	5%
Real Estate	1.6%	3%
U.S. Bonds	6.8%	30%
International Bonds	2.2%	5%
Cash	7.9%	2%

2. **Investment Fees:**_Currently, your advisor is charging you 1.25% for asset management only. Additionally, your underlying mutual funds fees have a weighted average of .95% annually. Your total annual investment fee cost is 2.20%.

3. ***Specific Investments:*** Once we confirm your specific asset allocation to implement, we will provide specific investments in each of your accounts. We generally recommend the use of Dimensional Funds, and ETFs, such as Fidelity, Vanguard, Black Rock and Schwab given their low cost and passive approach to investing.

4. ***Account Consolidation:*** For simplicity of management and tracking, we recommended consolidating the following accounts at Fidelity:

   a. SEP and Contributory IRAs

   b. Taxable Account

   c. 401K

   Additionally, we recommend consolidating Bill's SEP IRAs and 401K Plan into a Solo 401K Plan.

5. ***529 Accounts:*** We recommend utilizing the Utah 529 Plan given its low cost and availability of passive investments. While the current investment statements where not provided, we will need to review the overall allocation and investment strategy in the plans.

TAX PLAN

Our tax planning recommendations are as follows:

1. ***Convert SEP IRA to Solo 401K:*** We recommend the Company switch its retirement plan from a SEP IRA to a Solo 401K. The switch allows Bill to increase his yearly contribution by up to $9,000. This will provide approximately $2,800 in tax deferral.

2. ***Implement a Cash Balance Plan:*** We recommend the Company consider implementing a cash balance plan, which will allow Bill to contribute up to $277,000 pre-tax to the plan. This strategy will provide an annual tax deferral of approximately $100,000.

3. ***Employ Your Children:*** Consider employing your children. They can earn up to $12,000 without paying any Federal income tax and your business with get to deduct the wages. Your Company and the children will be required to pay payroll taxes, but the net result is tax savings of approximately $2,600 for each child. Important Note: The wages set must be reasonable considering the work done and the time they spend working in the business should be documented.

4. ***Establish Roth IRAs***: Bill, Mary and any children earning wages can make contributions to Roth IRAs. For Bill and Mary, the contributions are limited to $7,000 per year and for the Children $6,000 per year. Important Note: Bill and Mary are unable to make Roth IRA contributions directly to a Roth IRA account, but can do a strategy called "Backdoor Roth IRA" contribution.

5. ***Using 529 Accounts for Tax Savings:*** With the change in tax law, you can now withdraw up to $10,00 per year per student from a 529 account to cover private school tuition. From a state sncome tax perspective, you can contribute to a 529 plan to receive a tax deduction; then, withdraw tax free to pay tuition. Each person can contribute up to $15,000 per year, per beneficiary and get a state income tax deduction equal to 3.07% of the amount contributed. At the current time, Pennsylvania has not addressed this loophole, but may address in the future.

ASSET PROTECTION & INSURANCE PLAN

1. ***Home, Auto, Umbrella:*** Your home and auto liability coverages should be reviewed. We recommend a comprehensive review at least annually with your insurance broker. We recommend paying attention to the following:

    a. Consider getting umbrella liability coverage of $2 million. We recommend coverage at least one times your net worth.

    b. Make sure you have underinsured motorist coverage at least $500,000.

    c. Evaluate your auto and home deductibles relative to premium savings. May consider increase deductibles if the economics work in your favor.

   d. Make sure you have adequate liability coverage on your rental and a lease that states tenant is required to obtain renter's coverage and provide annual proof of insurance.

2. ***Life Insurance:*** We recommend you consider the following:

   a. Eliminate Bill's Northwestern Mutual $250,000 whole life policy. Annual premiums are approximately $6,000 that may be redirected to more efficient coverage.

   b. Replace Bill's Northwestern Mutual $500,000 term policy. Premiums will continue to increase each year. For 2019, expected premium is $5,085. A $500,000 10-year term is approximately $3,200 and a 20-year term $6,400, assuming a preferred rating.

   c. Maintain Mary's Northwestern Term Policy. May consider adding another $500,000 20-year term for approximately $1,000 per year, assuming a preferred health rating.

   d. For the Children's Northwestern whole life policies, consider using an index universal life or a variable universal life if your desired goal is to build them a tax-deferred investment strategy. If it is to provide basic life insurance coverage, use a term life insurance policy.

   e. Older Children may consider purchasing term insurance to hold insurability and to lock in long-term pricing while they are young and health.

   f. Need to evaluate the Northwestern Mutual Insurance and the efficiency of product pricing.

3. ***Disability:*** Need to confirm with Bill if he has disability. Also, does Age 65 alter the disability benefit.

4. ***Health Care:*** Bill should consider filing for Medicare Part A. You are eligible to sign up during a seven-month window beginning three months before your 65th birthday, the month of your birthday and for three months after your birthday. Since Bill paid into social security, Medicare Part A has no premium costs. Also, consider high deductible health plan with Health Saving Account (HSA) contributions.

5. ***Long term care (LTC):*** We need to address how you plan to fund your long-term care. An option exists to purchase life insurance with an option to use the death benefit during life to fund long term care.

BUSINESS PLAN

Consider if Bill's business is marketable and needs a succession plan should he be unable to continue.

ESTATE PLAN

1. ***Estate Planning Documents:*** We recommend reviewing your estate plan and updating your wills and powers of attorney for health and financial matters. We recall you recently updated your estate documents. If not, we recommend you get them updated.

2. ***Estate Tax:*** Your current net worth is under the $22.8 million per couple federal estate tax exemption. However, Pennsylvania does have an inheritance tax, but life insurance and assets passed to a spouse are exempt. Additionally, assets passed to children are taxed at 4.5%.

3. ***Beneficiary Designations:*** In addition to establishing appropriate beneficiary designations in your estate planning documents, we also recommend reviewing your beneficiary designations on all your retirement accounts and life insurance to ensure you have proper primary and secondary beneficiary designations. We will review them with you during our future estate planning meeting and the account transitions to our management.

4. ***Digital Estate Plan:*** We also recommend that you set up a digital estate plan. This is a physically secure (lock box, etc.) or digitally secure (portal) location for all your passwords for your financial and other accounts (banks, investment, benefit, social media, etc.). You can use LastPass to save all your passwords. Additionally, we will create an electronic vault for all important documents.

CONCLUSION

Please take some time to review the plan as outlined above, along with the attached reports and projections. Please feel free to email or we can set up a time to talk to address any questions.

See important information and disclosures in the detailed analysis section.

Detailed Assumptions, Analysis and Calculations