

BEACON FINANCIAL ADVISORS, LTD.

Fee-Only Financial Planners & Investment Managers

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Day, Month Date, Year

Personal and Confidential

Joe Q. and Joan G. Investor
123 Financial Freedom Drive
Anywhere, US 54321

Dear Joe and Joan:

Joe and Joan, this memo will recap our regular client meeting of MM/DD/YY in Beacon's office, as well as provide a checklist of meeting follow-up action items for our joint completion.

- + **Beacon's** action items are *italicized and underlined in blue* and have been input into your client database record for added "reminder."
- + **Your** action items are *italicized and underlined in green* and have been input into your client database record for added "reminder."

Investment and Asset/Liability Planning

- 1) Net Worth Statement - we updated your Net Worth Statement (NWS) for Month 20XX (enclosed). Your approximate NWS shows about \$13.3MM, a steady increase from under \$6MM in 2002.
 - a) See Estate Planning below.
 - b) Community Property - in Texas all your assets are Community Property, meaning you each own 50%. However, on your NWS we show the retirement assets in the name of the plan participant (Joe or Joan). This is necessary to properly calculate contribution limits and, later when you reach your respective RBD (Required Beginning Date) at age 70-1/2 for minimum distribution purposes, to calculate your distributions.
- 2) Investment Review – we prepared and reviewed recent investment reports depicting the status of your investment portfolio. We also reviewed your current client Investment Policy Statement ("IPS") last modified MM/DD/YY calling for a risk tolerance of "conservative-mid" and a mid-point target asset allocation of 38% equities and 62% fixed income and money market. After a comprehensive discussion, you indicated no change to your IPS¹. Presently your actual asset allocation is 40% equities and 60% fixed income and money market, indicating no rebalancing is needed.
 - a) Other investment topics include:
 - i) Fixed Income outlook - we spent time reviewing the 30+ year global trend in declining interest rates in the US (and other major developed sovereign nations) is near an end. In that your portfolio normal asset allocation is tilted to fixed income, we discussed the outlook for the US municipal bond sector since that is your primary fixed income exposure. While recent years have produced robust returns, our outlook is more muted in that we project the next couple years is more likely to produce low-mid single digit total returns in fixed income.
 - ii) **RECONFIRMED:** State of Israel Bonds – as a file reminder, your IPS calls for a "net" addition of \$25,000 each year in SOI bonds. As a reminder, this policy is via client mandate. Beacon

¹ Please remember to contact Beacon if there are any changes in your financial situation or investment objectives, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services.

completed the 20XX addition, and [we will assist you with the 20XX addition in Joe's IRA Rollover later in 20XX.](#)

- (1) State of Israel Bonds – of note your current portfolio of SOI bonds now has a FMV of about \$475.5K, or about 4.0% of your total portfolio value. Further, your IRA Rollover is the preferred holder of the SOI bonds that held there now constitute about 12.2%. To restate from prior policy discussion, we agreed to annually review this practice, but that the SOI bonds should not ever exceed 20% of your IRA Rollover balance or 10% of your total portfolio value.
- iii) Joe's 401k – (before Joe's 20XX contribution) of note the total account value of about \$374K consists of a "commingling" of funds in the Schwab account that, at www.online401k.com, reveals about \$292K (or 78% of total) is Joe's vested balance. The rest belongs to other employee/participants, including vested and non-vested.
 - (1) 20XX contribution - Joe noted in late 20XX the PA deferred paying certain bills to 20XX for tax planning purposes, and Joe loaned the PA about \$100K. In 20XX Joe has yet to take a "salary" so [the contribution for 20XX via pay deferral and the 3% safe harbor contribution by the PA is still pending.](#)

Tax Planning and Cash Management

3) Cash Management:

- a) 20XX Cash Flow Statement - Beacon compiled your estimated 20XX Cash Flow statement (enclosed) using known sources including your 20XX income tax records. Of note, your total savings of over \$510K was over 41% of your gross pre-tax income. Of importance to your Retirement Financial Goal Plan, your "surplus" was about \$233K. However, adjusting for the \$100K loan to the PA (see above), your true "surplus" was about \$133K, or just over \$11K/month. Your "surplus" is a good proxy for your normal living expenses.
 - b) 20XX Savings Policy – in addition to your continued savings (personal and PA) in Joe's 401k, you will continue your personal savings at \$8,000 via the Schwab MoneyLink. Late in 20XX you delivered a Community Bank check for \$350,000 that Beacon deposited into your Schwab investment account.
 - i) 20XX Joe's MDPA 401k – [the 401k contributions are via a payroll deferral to The Online 401k plus the employer 3.0% safe harbor contribution.](#) For Joe the payroll deduction is projected at \$23,000 (\$17,500 normal, plus \$5,500 > age 50 "catch-up"), plus the 3.0% is X the countable income of about \$255,000 X 3.0% = \$7,650, totaling \$30,650.
 - ii) 20XX IRA Non-Deductible Contributions – You have already made the 20XX IRA Non-Deductible Contributions via a journal transfer from your individual Schwab account at \$6,500 X 2.
 - iii) 20XX Joan 403b, 457b – Joan is making these contributions via payroll deferral at Anywhere Independent School District (see Retirement Planning below for June 20XX retirement).
 - c) 20XX Family Gifting –
 - i) **(RESTATEMENT)** Direct - as discontinuation of your 20XX and prior annual practice of family gifting within the gift tax annual exclusion of \$14,000 per giver/recipient, you did not make post 20XX gifts directly to each of your children.
 - ii) **(RESTATEMENT)** IDT2005 - Your annual gift to the IDT2005 was discontinued in 20XX.
- 4) 20XX Income Tax Forecast – your 20XX return is already filed. During this meeting we performed a line-by-line review of your 20XX income tax forecast.

- a) Note that your 20XX real estate tax postmark *date was MM/DD/YY so your CPA did not record your \$18,512 payment on Schedule A of your 1040. We agreed you would make your 20XX real estate tax payment 12/XX*, and *we will remind your CPA on your 20XX US 1040 you will have a "double-up" on Schedule A.*
- b) Joe's revenue and personal earnings –
 - i) You forecast \$900,000 (lower than the near \$1.2MM in 20XX due to tax planning and your reduced work schedule).
 - (1) Base Salary \$720,000 (\$60,000/month) with a 33%-35% federal w/h rate.
 - (2) Bonuses \$280,000 with a 25% federal w/h rate.
 - ii) Federal withholding estimated at \$279,000.
- c) Joe's 401k deferral the maximum at \$23,000 (\$17.5K limit plus \$5.5K catch-up). Additionally, the MDPA will contribute the additional 3% safe harbor contribution.
- d) Joan's W2 – Joan is deferring almost all her pay into the 403b then the 457f such that her W2 for federal tax purposes is negligible. As she will "resign" in Month 20XX, this is not a major item.
- e) Investment Income – Beacon estimated taxable interest, dividends, and capital gains. As for capital gains, the large capital loss recognized in 20XX will assure no net capital gains income for several years.
- f) 2013 American Taxpayer Relief Act - we focused on several new tax increases that impact you (see Beacon's 20XX Q1 VIEW From the Lighthouse for more information).
 - i) 39.6% v. 35% - you are now in the higher rate vs. prior years.
 - ii) PEP - your personal exemptions are now "phased out".
 - iii) Pease Limitation - this new limit on Schedule A will limit your itemized deductions to about 85% of your total (meaning some of your charitable giving, real estate taxes, etc. are not deductible).
 - iv) Investment Income - Qualified Dividends are now taxed at 23.8% for you, versus 15% in prior years (includes the 3.8% tax in ObamaCare noted below).
 - v) ObamaCare - the Affordable Care Act tax line items are projected to cost you about \$7K.
- g) Schedule A Itemized Deductions – We updated other Schedule A items, notably:
 - i) Charitable Giving – you estimated \$25,000 be used for charitable gifts directly to your charities, and another \$20,000 to your Investor Family Charitable Fund, totaling \$45,000.
 - ii) Medical outlays - you noted these will not total more than the 7.5% threshold of almost \$69K.
 - iii) Real estate taxes - as noted in the "double-up" above, we project about \$37,000.
- h) 20XX Forecast – based on these assumptions we project you will be about even for April 20XX.

Contingency Planning (Estate, Education, Retirement, Risk Management, etc.)

- 5) Estate Planning:
 - a) 1985 Investor Family Insurance Trust - see your MM/DD/YY meeting memo for updates.
 - b) 2005 Investor Family Descendants' Trust - see your MM/DD/YY meeting memo for updates.
 - c) American Tax Payer Relief Act - we discussed the permanent rules for the estate, gift, and GST exemption levels and the "portability" rule. We agreed *Beacon would inquire of your attorney if he advises any language changes in your wills or ancillary documents.*
- 6) Investor Family Trust - *please revisit your MM/DD/YY client meeting memo concerning your decisions about changes to the "earthquake" scenario and the contingent beneficiaries, trustees, etc.*
- 7) Risk Management:

- a) Coordination of Benefits with Texas Retirement System-ActiveCare and Medicare –
- i) **(RESTATEMENT FROM YOUR MM/DD/YY MEETING MEMO)** - our review of the MyTSA website in the ActiveCare section did not surface any new information conflicting with our 20xx review with the representative of Anywhere ISD. So long as Joan is working and you're both covered by ActiveCare, it is primary and Medicare is secondary. At Joan's retirement, Medicare (all parts) will become primary. Beacon could not locate any information suggesting at retirement Joan can remain a "covered" person in ActiveCare.
 - ii) **UPDATE** - with Joan's Month 20XX retirement, **Joe's insurance consultant is evaluating the pros/cons of COBRA coverage for health insurance versus Medicare.** Of note, you both enrolled in Medicare at age 65 but did not "opt in" for Part B (see Social Security Retirement Income start date material below in Retirement Planning).
- b) **(RESTATEMENT FROM YOUR MM/DD/YY MEETING MEMO)** Joe's practice disability BOH (business overhead) policies via American Life, and the PA's office lease – you received an updated MM/DD/YY email from your insurance consultant updating on the Age 65 renewals for the 15 month BOH policies with monthly benefits of \$8,077 and \$64,141 respectively. The premiums are paid by the PA and total \$1,616.03/month. Each policy has a 90-day elimination period. Your insurance consultant addressed your questions in his MM/DD/YY email as follows:
- i) **Benefits start being paid after the 90 day elimination period. They are not retroactive back to the first day. The benefits to be paid do not include your salary. That would make it a Disability Income policy. They will however include the expense of a physician you might hire during your period of disability minus any income that he/she might produce. For example, you hire someone for \$25,000 month and they produce net revenue of \$15,000. The difference of \$10,000 would be included in your eligible expenses to be reimbursed up to the max policy limit.**
 - (1) Prior plans - Joe lapsed all individual disability income policies a year ago. Joe had planned to retain the BOH policies for the duration of the office lease exposure.
 - (2) Current thinking -
 - (a) Office lease - per your request Beacon emailed your leasing agent to inquire if there was an opt-out provision for Joe if Joe died or became disabled prior to lease expiration. Your leasing agent confirmed YES with his MM/DD/YY email reply pasted as:
 - (i) **We did get a death and disability clause. In essence, after the occurrence, Landlord must be notified within 30 days. On death, the lease can be terminated. Disability is defined as 3 or more months of inability to conduct his medical practice for more than 20 hours per week, and the disability must be certified to the Landlord in writing within 90 days after becoming disabled.**
 - (b) 90-day elimination period – Joe's current thinking is if he became disabled per the policy definition for 90-days or more, his patient flow would discontinue and Joe likely would benefit from ceasing practice.
 - (i) In this context, Joe may not have funding requirements needing the 15-month BOH benefits. **Joe advised if the lease had the death and disability clause (see above), Joe likely would opt NOT to renew the BOH policies.**
 - (3) UPDATE - **you will not renew the two (2) BOH policies that renew in the next two months.**
- 8) Retirement Planning:
- a) Retirement Living Expenses - (see Cash Management above).
 - b) Social Security Retirement Income (SSRI) start dates analysis - we reviewed the various iterations of alternatives concerning your respective SSRI start dates. Your retirement Financial Goal Plan SSRI Maximization results indicate the strategy that results in the largest lifetime benefits, with the shortest break-even point, is if Joe files/suspends his application, and Joan applies for "spousal" benefits just prior to Joan's 67th birthday Month 20XX (see enclosed results and SS website instructions about applying).
 - i) Action Item - **you will perform this action around Month 20XX.**
 - ii) Reminder - with Joan's Month 20XX retirement, assuming you opt for Medicare vs. COBRA (see above), be careful not to simultaneously apply for SSRI.

- c) Joan's Texas Retirement System ("TRS") retirement calculation estimate and Social Security Retirement Income ("SSRI") integration via Government Pension Offset ("GPO") and the Windfall Elimination Provision ("WEP") - during our meeting we revisited the WEP rules. Joan can collect both her TRS pension and SSRI but with a reduction due to the GPO. The reduction is 2/3 of the TRS pension. The net result is Joan does NOT lose her SSRI due to her participation in TRS.
- i) Action item - [in the next several weeks Beacon will research what Joan must do to select and start her TRS pension.](#)

Miscellaneous (other)

- 9) Travel update –
 - a) In 20XX you will visit Germany, Austria, and Jackson Hole, WY. You recently returned from 2-weeks in Israel.
- 10) Health update – no major health changes were noted.

As always, Joe and Joan, it was a pleasure to see and meet with you. If you have any questions or comments about these or other matters, please do not hesitate to contact us.

Sincerely,

Joshua J. Hebert

Joshua J. Hebert
For Beacon Financial Advisors, Ltd.

ENC: 20XX Cash Flow Statement
NWS March 20XX
SSRI Maximization results

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