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Wealth Management: The Key to Client Engagement

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No one profession has "cornered the market" on wealth management, for good reason. Serving wealthy clients effectively requires the expertise and coordination of a wide array of professionals: including attorneys, CPAs, financial planners, investment advisors, bankers, insurance experts, trustees, and planned giving officers. Although some of us call ourselves "wealth managers," as if this were an exclusive title, the reality is that no one professional working alone has the resources required to provide comprehensive wealth management. When we act independently, we often give conflicting and confusing advice. In the long run this costs our clients additional fees to sort through the communication breakdown and may result in a loss of confidence in us.

Our clients expect excellence and will pay for it. They want clear, unbiased advice and customized plans for themselves and their families. They value open communications, goal setting, thoughtful implementation of strategies, and attention to detail. The efforts of a coordinated team of professionals can result in efficient wealth management. Tracking progress towards goals and fine tuning plans to stay on course keeps client interested and engaged.

The goal of this presentation is to highlight some areas where working together with each of us doing what do best, we can provide clients with the wealth management they require to help them accomplish their goals. We will focus today on aspects of wealth management where our professions overlap rather than the larger universe of wealth management which contemplates all of our clients' life goals.

Sometimes it is easier to see the benefits of working together by looking at examples of what can happen when we do not. Let's begin with a story.

<u>Scenario One (Exhibit 1. Page 14):</u>

Claire, age 75, has a $2.5 Million Individual Retirement Account (I.R.A.). Before considering the annual minimum required distribution (RMD) from the IRA, her income is about $100,000. Usually, about $50,000 is from a partnership investment. Her RMD for 2014 will be $109,190. For the past several years, Claire has taken advantage of the qualified charitable distribution rule[1] that allowed a transfer of an IRA distribution directly to a public charity. Her tax advantages have been the exclusion of $100,000 of IRA distribution income from her taxable income, the satisfaction of all or most of her annual distribution requirement, and a $100,000 gift to her church. Other than her annual contribution to the church, Claire has few deductions, perhaps $2,000. As a result of the charitable IRA distributions, Claire has not itemized deductions for several years. Claire's CPA, Brian, has worked with her for years and they interact periodically during the year when he checks on her investment income to verify the accuracy of her estimated tax payments and reminds her to take her RMD. Claire's financial advisor, Alice, is new to Claire's relationship following the retirement of Claire's old advisor. Alice has copies of Claire's tax returns from 2012 and 2013. Alice is eager to establish herself as Claire's trusted investment advisor and financial planner.

[1] IRC §408(d)(8)(A). This exclusion expired for distributions occurring on or after January 1, 2014.

When they meet in April, Claire brings her $50,000 partnership distribution check for 2014. Alice asks Claire about her plans for the 2014 IRA distributions. She tells Claire that the required distribution for 2014 is $109,190. Claire says she wants to give the church $100,000 – the same as 2013. Alice is planning to rebalance Claire's IRA portfolios and could easily raise cash now. She suggests doing the IRA distribution, early this year since in 2013 when they did it close to year-end, it was "hit or miss" that the transfer would be completed in time. Claire asks if the charitable "rule" is still available. Alice "thinks" she heard that is was extended but says that it doesn't matter for Claire since if she adds her whole IRA distribution to income, her gift to the church of $100,000 would be fully deductible since it will be less than half of her income. Alice believes that Claire's income should be about the same as 2013, about $100,000 before the IRA. The uncertain item in her mind is always the partnership and Claire just brought in the same amount as 2013. Claire says "Okay, that makes sense. Let's just get it done early so I don't have to worry in December." Alice offers to contact Brian and let him know but Claire says not to bother; she'll tell him when they check in later in the year. In October, Brian tells Claire he has good news: the partnership has a lot of extra deductions this year so her income for tax purposes will be about $30,000 less but her cash distributions next year will be the same. She tells him she took her RMD early and gave $100,000 to the church "like last year."

You can see this "train wreck" coming. If the charitable IRA distribution provision is not extended this year, Claire will have income of $182,000 instead of $82,000. (See Exhibit 1) Her charitable deduction of $100,000 will be limited to $91,000. After deductions and the personal exemption, her taxable income will be $85,000, about $14,000 more that it will be if the IRS exclusion is extended in 2014. Her tax bill for 2014 will be about $3,600 more. She'll have a charitable contribution carryover of about $9,000 but will have to wait at least a year to get the benefit of the deduction. Things actually will get even worse for Claire, because in 2016, her Medicare premiums will be about $1,500 more than they are in 2015 because with her higher adjusted gross income in 2014, the Medicare premium penalty she pays will increase. [2]

What's going wrong? Alice assumes that Claire's 2014 income will look just like 2013 but she is mistaken. She is also wrong about the tax effect of a $100,000 charitable contribution deduction

[2] Medicare Part B provides medically necessary services like doctors, outpatient care and other medical services not covered by Part A. The cost for Part B in 2014 is $104.90 per month but some people will pay a higher premium based on their modified adjusted gross income from the tax year two years past. 2014 premiums are based on 2012 income.

You Pay in 2014	If Your Yearly Income in 2012 was	
	Single	*Married Couple*
$104.90	$85,000 or less	$170,000 or less
$146.90	$85,001-$107,000	$170,001-$214,000
$209.80	$107,001-$160,000	$214,001-$320,000
$272.70	$160,001-$214,000	$320,001-$428,000
$335.70	Above $214,000	Above $428,000

for person who otherwise does not itemize deductions. Since the tax code may not be what Alice thinks and 2014 income is not the same as 2013, not only could Claire only receive a partial 2014 tax benefit from her contribution, she may lose the tax benefit she currently enjoys from a standard deduction that exceeds her actual deductions. Involving Brian before the IRA distribution might have surfaced the income difference between 2014 and 2013 and, as a tax professional, he probably would know that the IRA exclusion has not yet been extended. In addition, he may have been able to point out that a mistake about the tax law would have an adverse income tax consequence. It bears mentioning as well that Claire acting as a go between with her advisors increases the likelihood of a miscommunication. Clients notoriously hear what is helpful but may not appreciate the impact of slight differences in the message. Example: When Claire did not say "We did a direct payment to the church so that I can exclude $100,000 of IRA distribution from my tax return." It is important for professional advisors to explain to clients the potential consequences of acting without the full benefit of another professional's advice, especially if the other professional's area of expertise is important to the decision being made. Allowing the client to restrict our access to other's expertise <u>when that expertise is needed</u>, actually devalues the other professional in the client's eyes since you tacitly agree that what they would offer would not be helpful.

<u>Scenario Two (Exhibit 2, Page 15):</u>

John, age 63, was an engineer until he retired in 2005. He never married. A thrifty person, he had accumulated securities valued at $1,000,000 which had very low tax basis. He owned a small house worth $150,000. John hated to pay tax which is why he held on to the stocks. When the stock market fell in late 2008 and early 2009, his securities declined 30%. He still didn't want to pay tax, he did not sell anything. Although his portfolio regained the lost value, he had lost confidence in his ability to manage his own investments. He met a financial advisor at a retirement seminar who convinced him that he should consider having his securities managed professionally so that he wouldn't have to worry about being disciplined about investing during volatile financial times. His annual income in 2009 was a pension of $20,000 and Social Security of $20,000. He also had a 401(k) account worth $400,000. John's favorite activity was watching his college team play football. He loved the team and the school and had been a regular but modest donor for years. One reason that he liked Bart, the advisor, was that Bart too was an alumnus of Badger U. John was in an automobile accident a few years earlier and, since then had experienced persistent back and knee pain and had developed rheumatoid arthritis that was becoming progressively worse. He would soon need at least part-time home health care. John and Bart figured out that he would need an additional $50,000 per year to stay in his house with some home care. Bart suggested that John talk to Ellen, a planned giving advisor at Badger about a planned giving strategy that would supplement his income. After conversations with Ellen, John decides to set up an $825,000 Charitable Remainder Unitrust for Badger that will pay him nearly $50,000 per year for life. The Badger Foundation will be trustee and Bart will manage the assets. In September of 2009, a donation to a CRUT that paid 6% annually to a 63 year old for life produced an income tax deduction of $297,400. Ellen emphasized to John that he would have taxable income each year from the CRUT based on the CRUT's income and gains.

John called Frances, his CPA, with a "quick question" asking if it was true that he would get a tax deduction for a gift to a CRUT. She told him that he was correct and that if he couldn't use the full deduction, it would carryover for five years. John told her not to "worry about that" and added, as usual, "you're not going to charge me for this are you?" With the tax question answered Bart, who always thought of himself as something of a tax expert recommended that the trust be funded with the most appreciated securities. John was thrilled that he wouldn't pay tax on the gains on the stock given to the trust. Bart suggests that John convert part of his 401(k) to a Roth IRA to take advantage of the large charitable deduction in 2009. He says that John could do another conversion in 2010 if he couldn't use the full charitable deduction from the CRUT gift. Everything seemed perfect to Bart. In 2009, John's income would be unusually high with an extra $300,000 of Roth conversion income and a partial year of CRUT income but John would have extra deductions including that huge charitable deduction. Sure, John would pay more tax in 2009, Bart guessed about $30,000, but that was only about a 10% tax on $300,000 of income.

John sent his tax packet off to Frances early in 2010, along with the "thank you" and charitable receipt from Badger U. John's tax information was always well organized and Frances sits down on St. Patrick's Day to spend a pleasant afternoon doing John's taxes. But something wasn't right. She knew he was thinking about a charitable trust but golly, $825,000 was big. John's income was unusually high. He must have forgotten to include the rollover information from that 401(k) withdrawal. She thought he must be slipping because he had $15,000 of tax withheld on the 401(k) distribution. What an odd amount. He couldn't have kept it?

Just in case, she figured out the tax both ways, assuming a rollover and without one. When Ellen spoke with John, she asked about the rollover. "I didn't roll it over. I did a Roth IRA so that those required distributions I have to take in a few years will be smaller. I'll probably do another one this year if I have some charitable deduction left over this year. You saw my deductions, extra medical, and almost $300,000 for that Trust that's going to pay me $50,000 a year to cover my extra medical costs." Needless to say, John was not happy with his $63,000 tax bill.

Along lead-in but an example of what could happen when wealth management goes awry. Bart was doing good work for John. Helping him figure how to increase income, pay for home health care, and reviewing income over multiple years to match income and deductions. Ellen did her job with a planned giving strategy that provided income and deferred tax. Frances gave John correct answers, but with no context. The problem was that everyone advising John did not have access to the same factual information or knowledge of tax rules - and John didn't want to pay his CPA for any advice. Assuming that the gift of appreciated securities to the CRUT would be only limited to

50 percent of John's income was a major error. In addition, 2010 would have been a better year tax-wise for a charitable gift because deductions and exemptions were not limited that year.

Scenario Three (Exhibit 3, Page 16):

Wendy and Sam are both 57. They have two sons, the youngest of which just completed his undergraduate degree. The elder son is an engineer and has just married. With the kids established, Wendy and Sam are looking forward to their retirement in a few years. They live in Washington. Over the years, they have been able to save $700,000. Sam's mother died this year and he inherited $1,500,000. $500,000 is an Individual Retirement Account from which he'll have to take a distributions - beginning next year. The other $1,000,000 is from a trust that was created by his grandparents and ended when his mother died. The trust owned bonds and blue chip stocks. The approximate tax basis in the securities is $500,000. As a self–employed acupuncture therapist, he has not earned a great deal and has just $200,000 in a SIMPLE IRA retirement plan, unlike Wendy who has worked in banking and has a $900,000 401(k). Their house is valued at $700,000 and they have no mortgage. They cannot believe that an $80,000 purchase is worth that much. Wendy's parents who died two years ago, left her $500,000 and had given her the family their home ("the cabin") on Vashon Island several years ago. The cabin is worth $450,000. No one knows the tax basis since the cabin has been in the family for years.

They did their estate plan back in 2009 and the wills provide that each spouse is bequeathed their community property interest in the other's retirement plan. In addition, a trust in the amount that can pass free of federal and state estate tax is created for the survivor. We'll refer to itas an exemption trust because for Sam and Wendy, the Washington State estate tax exemption will determine the amount that funds the trust. Everything else passes outright to the surviving spouse.

You can see in Exhibit 3 that since the inheritance from Sam's mother, their respective estates are unequal and that if Wendy were to die first, her estate after the retirement plan bequest to Sam is only $1,850,000, not enough to take full advantage of the Washington State estate tax exemption of $2,012,000. Sam, as survivor would have $3,100,000. If Sam dies first, his estate is large enough to fully fund the exemption trust at $2,012,000. Wendy as survivor would have $2,938,000.

With portability of the federal estate tax exclusion amount now permanent, federal estate taxes are not currently an issue for Wendy and Sam. Their combined estates are just a bit more that the federal applicable exclusion amount for just one person. It is a shame to waste Washington exemption, but Sam and Wendy may not be willing to go through the time and effort to shift the ownership of $162,000 in assets to bring Wendy's estate up to the exemption amount.

As young as they are though, the trusts could pose income tax problems for them and their children going forward. Sam and Wendy are each the trustee of the exemption trust created when the other dies. The exemption trust will pay discretionary income for health, education, support, and maintenance. If the trust does not distribute income - and it might not for several years, since Sam and Wendy are both still working and are relatively young and healthy - the trust income will be subject to high ordinary income, capital gain, and net investment income taxes. If the trust were managed to minimize income, then over time the assets in the trusts could become quite appreciated. As the wills are currently written, the trust assets pass to the children free of trust at the death of the second to die of Sam and Wendy. The children could receive highly appreciated assets from the exemption trust when it terminates at the death of the second-to-die of their parents.

During their joint lifetimes, there are opportunities for Sam and Wendy with the help of advisors to tune-up their estate plans and make small changes that could save income taxes in the future. Estate plan changes include making income distributions from the exemption trust mandatory and providing for discretionary principal distributions that may carry-out trust capital gain to the beneficiary. A CPA could demonstrate the additional amount of tax that would be paid if income were retained in the trust. To gain a basis step-up in the trust assets at the death of the second-to-die, a testamentary general power of appointment over the trust assets could be given to the survivor.

If no estate plan changes are made, funding of the trust at the death of the first-to-die becomes very important. Slow-to-appreciate assets will minimize income taxes. The advice of both the CPA and estate attorney are needed to carefully balance the potential income tax consequences from the trust. While it may not seem completely necessary at the death of the first-to-die, making that portability election will be valuable. Fifteen or twenty years of appreciation in real estate and securities could leave the survivor with an estate that is taxable for federal purposes and would benefit from an augmented applicable exclusion amount - even though that seems a remote possibility at the death of the first. Modifying the trusts after the first death to provide greater flexibility for distributions, may be achievable through the Washington trust and estate dispute resolution statute, but should not be relied upon since all interested parties must agree and there is no guarantee that would happen.

<u>Scenario Four (Exhibit 4, Page 17):</u>

Alex is the trustee of a family trust established for the benefit of Joyce and her sister, Teresa. The trust company that Alex works for is located in Washington. Trust distributions are discretionary for the health, education, and wellbeing of the beneficiaries. Over the past several year, the trust has distributed about $48,000 to each of Joyce and Teresa. This amount has been what Teresa has needed to supplement her family's income and be "comfortable." Keeping the distributions equal has helped greatly with family harmony. Alex has seen many families where unequal treatment of siblings has led to bad feelings and sometimes even litigation. Since both beneficiaries receive the trust financial reports, they can see that they are treated the same.

Because Joyce has no children, at her death, her interest in the trust passes to her sister (who is 15 years younger than Jayce) or her sister's children. The annual distribution has been quite satisfactory to Joyce. She is employed as a college professor and earns about $100,000 per year. With the trust distributions, she has been able to take a nice vacation or two each year and save some money. Joyce lives in Washington and entered into a registered domestic partnership[3] with Helen in 2009. They married earlier this year after same sex marriage became legal in Washington[4]. Joyce is 65. Helen has worked at a printing company for 25 years and is physically worn out and ready to retire this year at age 63. She earns $55,000 per year and has a pension that will pay her $25,000 for life. Joyce is concerned about Helen's financial security after her death because she has the higher earned income of the couple and also knows that the trust distributions will cease. Joyce and Helen own a home together and have $750,000 in savings outside of retirement plans. They are currently working with a financial planner to map out retirement strategies. Social Security is an important element in their financial plan. Their planner has mentioned deferring of those benefits if they can afford it but the CPA tells them that it will take "too long" to break even if they defer.[5] They are confused by the differing advice. Joyce wishes she would be more certain about Helen's support after she is gone.

Alex has just paid the 2013 taxes for the trust and is dismayed by the increase due to the 2012 Tax Act. Taxes are up more than 33 percent on the undistributed trust income and gains of $220,000. The trust's CPA has just provided both the 2013 tax return and the schedule of 2014 estimated tax payments. His advice: "Distribute more to the beneficiaries who are probably in lower income tax brackets than the trust. Alex is talking with the trust's attorney about his discretion to distribute more to the income beneficiaries without violating his duty to the remainder beneficiaries. He wonders how generous he can be under the "wellbeing" standard.

Teresa has recently informed Alex that her oldest son will be entering college in the fall and that she will need an additional trust distribution of $25,000 this year. She thinks that if both of her children attend colleges for just four years each, she will need at least $50,000 per year for the next seven years - more if tuition fees increase over that time period.

Can you imagine a situation riper for planning? If only everyone had the same information. Joyce, Alex, and Teresa have a joint wealth management situation – they just don't know it. Alex hates to

[3] Laws of 2007, ch 156, codified at RCW 26.60

[4] Laws of 2012, ch 3, S.B. 6239, adding a new section to RCW 26.60

[5] According to Social Security expert Andy Landis: "Using simple dollars (no inflation, no COLAS, no taxation of benefits, and no return on invested money), filing at 62 instead of 66 puts you "money ahead" until age 78. Those four years of early payments pay off for a good number of years. But at age 78, the age-66 filer has caught up, and from then on is ahead, with higher monthly payments for the rest of his or her life." "Again, using simple dollars, filing at 66 instead of 70 puts you money ahead until age 82-1/2, After that, the age-70 filer is ahead for the rest of his or her life." Social Security: The Inside Story, 2012 Edition, Andy Landis. Pages 218-219

pay huge taxes when the beneficiaries would pay less but know he can't arbitrarily favor one group of beneficiaries over the other. Teresa needs more from the trust for her kids' education. She never bothered to save for their college because she knew that the trust would pay for it. Joyce needs a plan for the lifetime security of herself and Helen.

Ideally, these varying needs would be integrated for an ideal situation. But as in the previous scenarios, it could all go sadly awry. Let's look at how it could go wrong.

Alex could begin distributing more income to Teresa which can be easily done under the terms of the trust. This will save the trust some income tax and provide Teresa with the help she wants for the education expenses. The trust can also help pay for Teresa's increased income taxes on the addition trust distribution. With an income tax gross-up, Teresa would get an additional $65,000 per year. Unfortunately, Joyce has a more difficult situation to address as she struggles to make important decisions about hers and Helen's future. Unless she too can receive increased trust distributions, she is highly likely to begin to resent Teresa's higher distributions which she would know about because she receives the trust reports.

Without a clear plan that lays out the financial path for her family, Helen is likely to begin drawing Social Security at age 63 just to keep her contribution to the household nearly the same. Drawing Social Security before her normal retirement age of 66[6] will permanently decrease Helen's Social Security benefits by as much as 25 percent (See Exhibit 4), regardless of whether her benefit is determined based on her earnings record or Joyce's. When Helen retires at age 63, she will also lose her medical insurance and will not yet be eligible for Medicare. She will have to purchase individual health coverage unless Joyce remains employed at the college which could provide spousal medical insurance benefits. However, Joyce may feel somewhat "trapped" in her job for the two years until Helen qualifies for Medicare. She must continue teaching at least 50 percent of the year to remain eligible for full health benefits. That plan does save the cost of purchasing health coverage for Helen and will boost Joyce's future Social Security benefit because of her enhanced earning history

Now let's look at how this might work better.

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[6] Full Retirement Age, also referred to a Normal Retirement Age, varies depending on the year of birth. Following is an excerpt from a table found at www.ssa.gov.

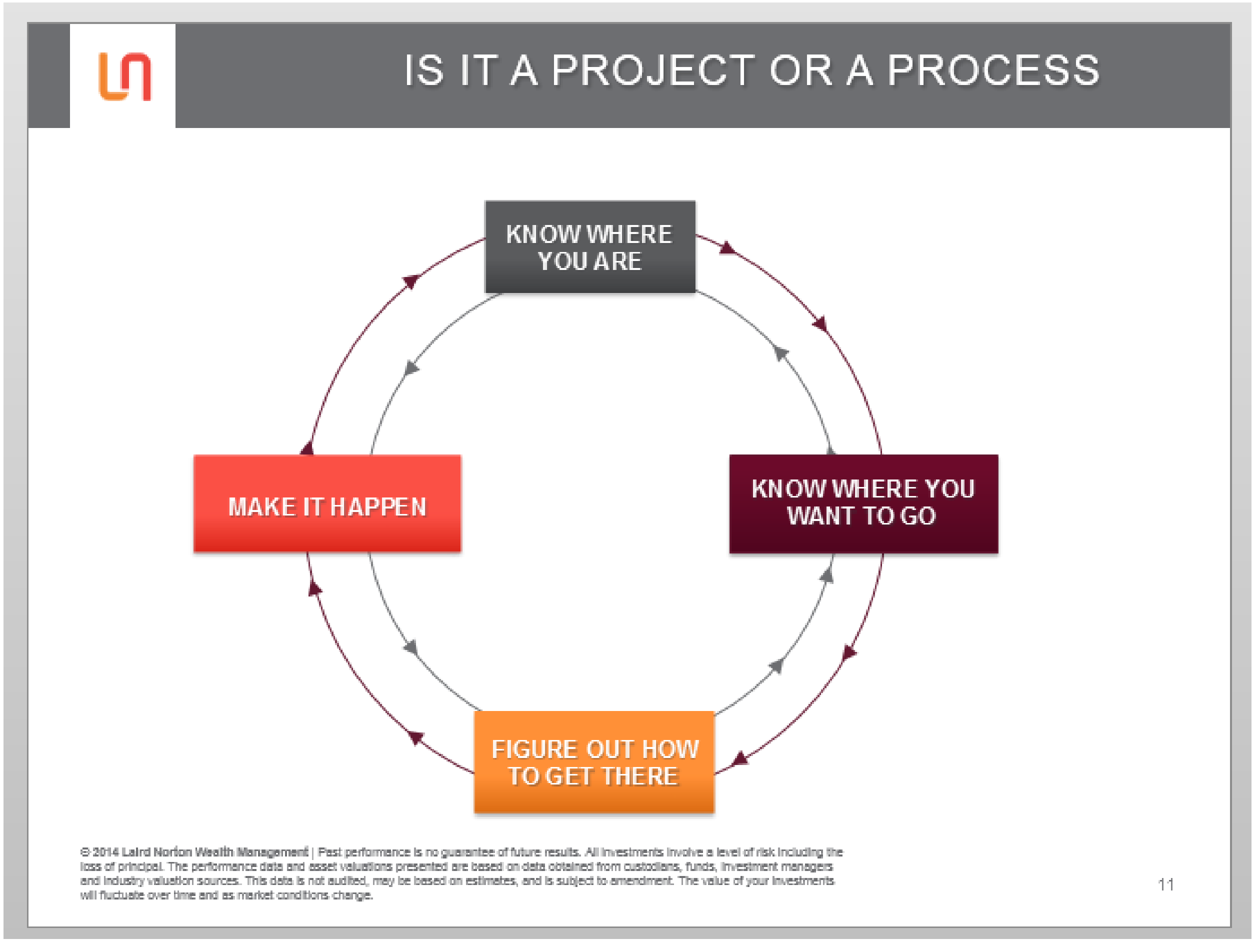
Year of birth	***Full retirement age***
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

In this situation, Joyce's financial planner is probably the likely lynch-pin in the planning process. She has all of the information about Joyce and Helen and their financial affairs and would have access to the trust financial reports through Joyce. As a financial planner she is already working with Joyce and Helen to determine their sources and amounts of funds for retirement. She would be looking at the annual flows into the household from the trust and Joyce's employment as well as Helen's pension. Analyzing the Social Security options for both Helen and Joyce is essential **before** either of them applies for benefits. If together they could draw $45,000 from Social Security in Normal Retirement benefits, that's $900,000 over 20 years. If they receive 20 percent less, that's $720,000. And at 20 percent more they would get $54,000 per year which is $1,080,000 over 20 years. The big variables in their expenses are health insurance for Helen and probably long-term care insurance for Helen. They would like to increase the life insurance coverage on Joyce that she already has through her employer.

Were it possible for the trust to distribute the same additional funds to Joyce as it will for Teresa, Joyce and Helen would have and additional $487,000 over the next eight years which could allow them to increase their lifetime Social Security by deferring taking their benefits until normal retirement age for Helen and perhaps age 67 or 68 for Joyce without her having to work full time. They could afford to pay for long-term care insurance for Helen if Joyce's continued employment secures Helen's the health insurance at low or no cost. More life insurance on Joyce may also be affordable. A meeting between the planner, Alex, and Joyce would certainly help. Input from the trust's attorney will be necessary. You can see that a solution may be possible if everyone understand the entire financial picture. In other works, if the problem is approached holistically.

As each scenario demonstrate, advisors trying to do their best for their clients but working alone, may contribute to situations with adverse consequences for those clients. Working together, the outcome for the client can be optimized. That is the essence of wealth management. Each advisor tends to believe that his or her focus – whether that focus is income tax savings, estate and estate tax planning, or financial asset management – is also the client's. We have what we think is our clients' best interests at heart. Unfortunately, we are wrong. Clients love to save taxes but few of them would choose the complicated strategies that many professionals create simply to save taxes. Most clients' top priorities are the happiness, health, and financial security of themselves and their loved ones, followed by philanthropy. Taxes and sophisticated strategies come in last.

What are the obstacles to wealth management as I've described it? A big obstacle is fees - as we've already seen. Another is time and attention – engagement – of the clients as well as the professionals. The final obstacle is lack of team work among advisors. The three together can create a vicious cycle that stymies progress towards achieving client goals. Even the best of plans requires the occasional "tune-up" when unexpected circumstance and events intervene. As you can see from the following illustration, the planning project becomes a process – the circle becomes a wheel.



What keeps everyone engaged is follow-up and progress, even if it in only incremental.

Few clients enjoy paying fees. However, most are willing to pay for value. Many professionals are only compensated by clients for hours billed. When that is the case, it is in everyone's best interest for all professionals to work together to create efficiency. Clients should pay us for our expertise - what we do best- and should ideally only pay once. Joint meetings with the client and all of the advisors who have an interest in the plan are efficient. They promote clear communication because everyone hears the same thing and has an opportunity to express their opinion. Differences can be resolved in "real time" and the momentum to agree to a plan is generated. A prerequisite for an efficient and successful meeting is shared factual information. Clients are happier when they are not paying all of their advisors for gathering the same basic information that they have probably already provided to other advisors – quite often their financial advisor. In addition to being frustrating for clients, multiple information requests often result in different answers leading to wasted meeting time reconciling differences.

As professionals, we can quibble about should lead or "own" the planning process. In my experience, the leader should be the client's trusted advisor, that person the client goes to first with problems. That person is usually the person that the client least hates paying as well. However, sometimes, it will simply be the advisor that the client sees most often. CPAs and financial advisors have the most access to the client because regular interactions (the annual tax return or quarterly performance review) are a required component of the professional relationship. When we are all sitting around the conference room - or dining room – table, the attorney seems to command the most respect. Like it or not. Whoever the leader is, in addition to deploying his or her professional expertise, that individual must take responsibility for insuring follow-up. Nothing is more deflating for clients and advisors that the “big” planning session that is followed by weeks, quarters, and years of false start and lack of progress. Follow-up keeps the clients engaged, the professionals on task, and results in completed plans. An important element of follow-up is the post-meeting memo which summarizes what was discussed, where there was agreement and decisions made, and provides an action plan and next steps for everyone. When fees are an issue, some of the follow-up activities can be assumed by a lower hourly fee or no hourly fee advisor (such as a financial advisor or insurance professional) but the professional “nudges,” especially to the client should come from that meeting leader.

We began this session with my statement that no <u>one</u> profession does wealth management well. Effective wealth management requires efficiency in collaboration, clarity of communication, and a focus on defining and achieving client goals. Working independently and perhaps even at odds with each other, we all lose something. The clients though lose the most: it is their plans that go awry and their wealth that is not managed. Working together, great outcomes can be achieved, taxes can be minimized, and we can feel that we provided value. We will have managed wealth.

Table of Exhibits:

EXHIBIT 1

CLAIRE

	2013	2014
IRA BALANCE 12-31-2012 AND 2013	2,403,800	$ 2,500,500
AGE :	74	75
R.M.D.	$ 101,000	$ 109,190
PARTNERSHIP DISTRIBUTION	$ 50,000	$ 50,000

	TAX RET'N SUMMARY	TAX RET'N SUMMARY		
	ACTUAL	LIKELY	CLAIRE EXPECTS	ALICE ASSUMES
SOCIAL SECURITY	$ 24,300	$ 24,700	$ 24,700	$ 24,700
EXCLUDIBLE SOC. SEC.	$ (3,645)	$ (3,600)	$ (3,600)	$ (3,600)
PENSION AND INTEREST	$ 20,145	$ 20,505	$ 20,505	$ 20,505
PARTNERSHIP INCOME	$ 51,000	$ 21,500	$ 21,500	$ 51,500
DIVIDENDS AND LONG-TERM GAINS	$ 10,000	$ 10,500	$ 10,500	$ 10,500
ADJ GROSS INC. W/O IRA DISTRIBUTION	$ 101,800	$ 73,605	$ 73,605	$ 103,605
IRA DISTRIBUTIO - RMD	$ 101,000	$ 109,190	$ 109,190	$ 109,190
QUAL. CHAR DISTR.	$ (100,000)		$ (100,000)	
ADJ. GROSS INC.	$ 102,800	$ 182,795	$ 82,795	$ 212,795
STD DED'N	(7,600)		(7,750)	
VARIOUS ITEMIZED		(2,000)		(7,750)
CHARITABLE		(91,398)		(100,000)
PER. EXEMP.	(3,900)	(3,950)	(3,950)	(3,950)
TAXABLE INCOME	$ 91,300	$ 85,448	$ 71,095	$ 101,095
INC. TAX	$ 17,304	$ 16,169	$ 12,580	$ 20,115
MARGINAL TAX RATE	25%	25%	25%	28%

JOHN

2009 - 2010 TAX PLANNING

BASIC INFORMATION- 2009:	
SECURITIES	$ 1,000,000
TAX BASIS	$ 250,000
ANNUAL DIVIDEND	$ 20,000
401(K)	$ 400,000
ANNUAL PENSION BENEFIT	$ 20,000
ANNUAL SOCIAL SECURITY BENEFIT	$ 20,000

	NO PLANNING	THREE-YEAR TAX PLAN - 50% CHARITABLE LIMIT			THREE-YEAR TAX PLAN - 30% CHARITABLE LIMIT		
	2009 Estimated Taxable Inc.	2009 Estimated Taxable Inc.	2010 Estimated Taxable Inc.	2011 Estimated Taxable Inc.	2009 Estimated Taxable Inc.	2010 Estimated Taxable Inc.	2011 Estimated Taxable Inc.
SOCIAL SECURITY	$ 20,000	$ 20,000	$ 20,400	$ 20,800	$ 20,000	$ 20,400	20,800
EXCLUDIBLE SOC. SEC.	$ (3,000)	$ (3,000)	$ (3,060)	$ (3,120)	$ (3,000)	$ (3,060)	(3,120)
PENSION	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	20,000
CHAR REM TR INC (ALL DIV AND C.G.)		$ 12,375	$ 49,500	$ 49,900	$ 12,375	$ 49,500	49,900
ROTH IRA		$ 300,000	$ 100,000		$ 300,000	$ 100,000	
DIVIDENDS AND LONG-TERM GAINS	$ 20,000	$ 20,000	$ 7,500	$ 8,000	$ 20,000	$ 7,500	8,000
ADJ GROSS INC.	$ 57,000	$ 369,375	$ 194,340	$ 95,580	$ 369,375	$ 194,340	95,580
STD DED'N	$ (5,700)						
MEDICAL		$ (25,000)	$ (50,000)	$ (55,000)	$ (25,000)	$ (50,000)	(55,000)
AGI LIMIT		$ 27,703	$ 14,576	$ 7,169	$ 27,703	$ 14,576	7,169
OTHER ITEMIZED		$ (2,625)	$ (2,625)	$ (2,625)	$ (2,625)	$ (2,625)	(2,625)
CHARITABLE		$ (110,813)	$ (58,302)	$ (28,674)	$ (184,688)	$ (97,170)	(15,542)
DEDUCTION LIMITATION (PEASE)		$ 2,026			$ 2,026		
PER. EXEMP.	$ (3,650)	$ (3,650)	$ (3,650)	$ (3,700)	$ (3,650)	$ (3,650)	(3,700)
PER. EXEMP. LIMITATIONN (PEP)		$ 1,217			$ 1,022		
TAXABLE INCOME	$ 47,650	$ 258,234	$ 94,339	$ 12,750	$ 184,164	$ 55,471	25,882
INCOME TAX	$ 5,785	$ 63,640	$ 14,066	$ 1,488	$ 40,375	$ 3,221	$ 3,457

WENDY AND SAM

	CP OR SP	TOTAL	WENDY	SAM
RESIDENCE	CP	$ 700,000	$ 350,000	$ 350,000
CABIN	SP	$ 450,000	$ 450,000	
401(K)	CP	$ 900,000	$ 450,000	$ 450,000
SIMPLE-IRA	CP	$ 200,000	$ 100,000	$ 100,000
JOINT INVESTMENT ACCOUNT	CP	$ 700,000	$ 350,000	$ 350,000
WENDY'S INHERITANCE	SP	$ 500,000	$ 250,000	$ 250,000
SAM'S INHERITANCE - IRA	SP	$ 500,000		$ 500,000
SAM'S INHERITANCE - SECURITIES	SP	$ 1,000,000		$ 1,000,000
		$ 4,950,000	$ 1,950,000	$ 3,000,000
IF WENDY DIES FIRST:				
SPECIFIC BEQUEST TO SPOUSE			$ (100,000)	
TAXABLE ESTATE = EXEMPTION TRUST			$ 1,850,000	
SURVIVOR'S ESTATE			$ 3,100,000	
IF SAM DIES FIRST:				
SPECIFIC BEQUEST TO SPOUSE				$ (450,000)
RESIDUAL BEQUEST TO SPOUSE				$ (538,000)
TAAXABLE ESTATE = EXEMPTION TRUST				$ 2,012,000
SURVIVOR'S ESTATE				$ 2,938,000

EXHIBIT 4

JOYCE AND HELEN

HELEN'S SOCIAL SECURITY OPTIONS:

(1) BASED ON HER OWN EARNINGS RECORD:

ESTIMATED ANNUAL SOCIAL SECURITY AT NORMAL RETIREMENT AGE OF 66 **$ 18,000**

		Inc/Dec Rate	Inc/Dec Amt.	Adj. Benefit
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 65	EARLY	-8.333%	$ (1,500)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 16,500
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 64	EARLY	-8.333%	$ (1,500)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 15,000
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 63	EARLY	-8.333%	$ (1,500)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 13,500
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 67	DEFERRAL	8.00%	$ 1,440	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 19,440
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 68	DEFERRAL	8.00%	$ 1,440	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 20,880
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 69	DEFERRAL	8.00%	$ 1,440	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 22,320
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 70	DEFERRAL	8.00%	$ 1,440	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 23,760

(2) SPOUSAL BENEFIT BASED ON JOYCE'S EARNINGS

50 PERCENT SPOUSAL BENEFIT FOR FULL RETIREMENT AGE OF 66 **$ 13,500.0**

		Inc/Dec Rate	Inc/Dec Amt.	Adj. Benefit
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 65	EARLY	-8.333%	$ (1,125)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 12,375
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 64	EARLY	-8.333%	$ (1,125)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 11,250
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 63	EARLY	-8.333%	$ (1,125)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 10,125

NOTE: IF HELEN WAITS UNTIL SHE IS AGE 66, SHE CAN CHOOSE TO DRAW AS JOYCE'S SPOUSE AND ALLOW HER BENEFIT TO INCREASE. IF SHE DRAWS BEFORE AGE 66, SHE MUST APPLY FOR AND DRAW ON HER OWN WORK RECORD WHICH CAN BE SUPPLEMENTED BY HER SPOUSAL BENEFIT.

JOYCE'S SOCIAL SECURITY OPTIONS:

ESTIMATED ANNUAL SOCIAL SECURITY AT NORMAL RETIREMENT AGE **$ 27,000**

		Inc/Dec Rate	Inc/Dec Amt.	Adj. Benefit
ANNUAL DECREASE IF SHE BEGINS WITHDRAWALS AT 65	EARLY	-8.333%	$ (2,250)	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 24,750
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 67	DEFERRAL	8.00%	$ 2,160	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 29,160
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 68	DEFERRAL	8.00%	$ 2,160	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 31,320
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 69	DEFERRAL	8.00%	$ 2,160	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 33,480
ANNUAL INCREASE IF SHE BEGINS WITHDRAWALS AT 70	DEFERRAL	8.00%	$ 2,160	
ESTIMATED ADJUSTED ANNUAL BENEFIT				$ 35,640