Assumptions used to generate sample plan output for John and Jane Client (as of July 1, 2004):

Retirement:
Retirement will commence in June of 2020, when John is 63 and Jane is 65.

Lifestyle:
John and Jane will maintain a current lifestyle of $3.5K/month (excluding mortgage payments, investment contributions and taxes), in today's dollars. This lifestyle will continue throughout retirement (adjusted annually for inflation).

- John and Jane's monthly mortgage payment is assumed to be $1,750.79, and is expected to continue until August 2033.

- John and Jane's projected annual tax liability is an estimate calculated by the software, and based on current income and spending assumptions, as well as current U.S. tax codes. Actual tax liability will be based upon tax reporting methodologies incorporated by the client, in connection with the client's CPA.

Social Security:
John and Jane are assumed to benefit from social security income during their retirement. (Income calculations based on current income levels and social security projections, as calculated by the software.)

Current Income:
John is assumed to currently earn $140K per year (indexed annually @ 3.1%). Jane is assumed to currently earn $50K per year (indexed annually @ 3.1%).

Education Expenses:
Average costs for private colleges and universities for 2002-2003 were $27,677[1]. These costs are projected to increase at an annual rate of 5.5%. The analysis assumes that John and Jane will cover $20,000 of these annual costs for each of Melody and Harmony, in today's dollars.

Investment Contributions:

- John is assumed to contribute $500/month to his 401(k) plan with a $250/month matching contribution from his employer, each adjusted annually for inflation. (Current account value: $25,000).

- Jane is assumed to contribute $200/month to her 401(k) plan with a $100/month matching contribution from her employer, each adjusted annually for inflation. (Current account value: $3,800).

[1] According to www.finaid.org

- John and Jane are assumed to contribute $300/month and $200/month (indexed annually for inflation) to newly established 529 accounts established for the benefit of Melody and Harmony, respectively.

- John and Jane are assumed to contribute $500/month (indexed annually for inflation) to a newly established nonqualified account that is earmarked for additional education funding. To the extent such funding is not needed for education, it may be used for other purposes.

- During retirement, unused distributions from qualified accounts will be transferred to the investment portfolio.

Asset Allocation:

- Portfolio Assets:
  - 2004-2011: 80% Equity, 20% Tax-Free Income
  - 2012-2021: 65% Equity, 35% Tax-Free Fixed Income
  - Retirement: 40% Equity, 50% Tax-Free FI, 10% Cash

- Retirement Assets:
  - 2004-2011: 80% Equity, 20% Fixed Income
  - 2012-2021: 65% Equity, 35% Fixed Income
  - Retirement: 50% Equity, 50% Fixed Income

- Melody's 529 Account: 70% Equity, 30% Fixed Income

- Harmony's 529 Account:
  - 2004-2007: 100% Equity
  - 2008-2009: 80% Equity, 20% Fixed Income
  - 2010-2011: 70% Equity, 30% Fixed Income
  - 2012-2013: 60% Equity, 40% Fixed Income
  - 2014-2015: 50% Equity, 50% Fixed Income
  - 2016 and beyond: 25% Equity, 25% Fixed Income, 50% Cash

- Additional Education Funding:
  - 2004-2012: 100% Equity
  - Thereafter: Investment Portfolio Allocation

Rates Of Return:

- Equities: 10% (2% dividends, 2% cap gains, 6% deferred growth); 17.2% st. dev.
- Fixed Income: 6.5% (5.5% interest, 1% cap gains); 7.7% st. dev.

Projections are based on assumptions that are believed to be reasonable. Actual results may vary, perhaps to a material degree.

- Tax-Free FI: 5% (4.5% tax-free interest, 0.5% cap gains); 7.7% st. dev.
- Cash: 4% (4% interest); 3% st. dev.
- Inflation: 3.1%
- Assumed annual portfolio turnover: 25%

Sample Plan Output Notes:

- In the “Capital Needs Analysis” sample plan output:
    - The “Investment Assets” column consists of the aggregate value of the nonqualified investment account plus the two 529 plan accounts referenced above.
    - The “Retirement Assets” column consists of the aggregate value of the two 401(k) accounts and the IRA account referenced above.
    - The “Lifestyle Assets” column consists of the value of the client’s primary residence, less the outstanding mortgage balance. (The value of the primary residence is assumed to appreciate at an annual return of 2% per annum.)
    - The “Total Income” column, in the years following retirement, consists of the aggregate of projected social security income, income generated from the investment account referenced above, and distributions from the retirement accounts referenced above.
- In the “Cash Flow” sample plan output, the annual “Surplus Lifestyle Expense” entries consists of annual income less projected taxes, mortgage payments, projected lifestyle expenses (as specified by the client) and investment contributions. This annual “surplus” is treated as an additional expenditure by the plan, and represents an amount that may either be used for additional investment, or for the satisfaction of additional expenses.

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