Retirement Plan for Michael David and Elizabeth Romaine Fuller

December 16, 2010

Plan #1: No Major Changes (Overview)

This plan reflects your current intentions, without any changes to your work plans or standard of living.

Key elements:

1. This plan assumes that Michael will retire according to current plans. Elizabeth does not currently work for pay, and will not do so in the future.
2. Michael should begin taking Social Security at age 67.
3. Michael should elect the 25-year payment option, under Mike's pension.
4. Expenses are assumed to remain at a level in line with your current standard of living.
5. This plan does not assume that you sell your home right away.
6. You face some chance of a serious cash flow problem later. In that event, you will need to tap the equity then likely to be available in your home by: obtaining a home equity loan, using a reverse mortgage, or making a private arrangement within your family, depending on which options are available and most appealing to you.

Report Card for Plan #1

B	Overall grade
A-	Under "normal" circumstances
B+	If you live an extra long lifetime
A-	If you experience inferior returns on savings and investments
A-	If inflation is abnormally high
A-	If you have high medical expenses, including long-term care
D+	If you have high medical expenses, including long-term care, and if you live an extra long lifetime

See the attached Explanatory Notes for more specific definitions of each set of circumstances referred to above.

7. VISA card should be paid off, since the interest rate on the debt is higher than what you are likely to earn on your savings.
8. Michael is not being advised to seek new long-term care insurance, because living arrangements may go a long way toward reducing the need for outside help, because home equity can help pay

for care, and because other assets may be available, if needed. However, you may wish to consider such insurance for other reasons (see Explanatory Notes).

9. Elizabeth also is not being advised to seek new long-term care insurance, because her relatively poor health will make premiums extremely expensive.
10. For this plan, there is no longer any apparent need for life insurance benefits to cover survivor needs or legacies payable upon either of your deaths. Unless this insurance was purchased with some other special need in mind, you may consider disposing of it; or you may keep it for future cash value growth.
11. This plan assumes that all current cash value insurance on Michael's life is kept in force indefinitely. It is also assumed that Michael will purchase new life insurance in the amount of $172,000 to assure that the desired amounts are available for heirs upon his death.
12. Elizabeth has a traditional IRA that she should consider converting, in whole or in part, to a Roth account. Since your tax-sheltered retirement assets are currently mostly in non-Roth accounts, converting some to Roth status will give you more options for managing your funds in the future, regardless of whether your taxes increase or decrease. Note that since Roth conversions generate taxable income, you usually should not convert so much in one year that you are pushed into a higher federal income tax bracket.
13. This plan assumes that your business interests are sold as soon as practical.
14. This plan assumes that your investment real estate is sold in about 3 years.
15. You probably will need to liquidate some assets to cover upcoming cash flows. You should consult the attached "Evaluation of Assets for Sale or Re-allocation" report for details about which assets are most eligible for this purpose.
16. This plan assumes a mixed investment strategy, with some funds invested conservatively and others not as conservatively, targeting an average annual rate of return 3.6% above inflation.
17. Michael should draw up a last will and testament to assure that the disposition of assets, and other arrangements, occur as desired.
18. Michael should create a living will so that wishes in the event of serious illness will be observed.
19. Michael should sign a health care proxy enabling a designated loved one to make medical decisions in case incapacity prevents one's own decision being made.
20. Michael should set up a durable power of attorney so that a proper substitute can make financial and lifestyle decisions in case of one's own incapacity.

Plan #2: Combination (Overview)

In this plan, retirement is delayed by 3 years, and your overall standard of living is assumed to be reduced by 25%.

Key elements:

1. This plan assumes that Michael will retire in the sixth year. Elizabeth does not currently work for pay, and will not do so in the future.
2. Michael should begin taking Social Security at age 67. Michael should also file for but suspend benefits at age 66 so that Elizabeth can obtain spouse benefits early (see Notes).
3. Michael should elect the 25-year payment option, under Mike's pension.
4. Expenses other than medical and financial items are assumed to be reduced by 25%, even though this may require important changes in where and how you live. Costs for medical treatment and financial obligations are presumably not subject to voluntary reduction on your part.

Report Card for Plan #2

Grade	Circumstance
A+	Overall grade
A+	Under "normal" circumstances
A+	If you live an extra long lifetime
A+	If you experience inferior returns on savings and investments
A+	If inflation is abnormally high
A+	If you have high medical expenses, including long-term care
A	If you have high medical expenses, including long-term care, and if you live an extra long lifetime

See the attached Explanatory Notes for more specific definitions of each set of circumstances referred to above.

5. This plan does not assume that you sell your home right away.
6. You face some chance of a serious cash flow problem later. In that event, you will need to tap the equity then likely to be available in your home by: obtaining a home equity loan, using a reverse mortgage, or making a private arrangement within your family, depending on which options are available and most appealing to you.
7. VISA card should be paid off, since the interest rate on the debt is higher than what you are likely to earn on your savings.
8. The plan assumes that your ongoing special expenses will be reduced by 25% as well. If this is not possible, you will need to compensate for it elsewhere. You have also indicated a future lump sum expense, which we have not assumed you can reduce. If you can, this may give you some latitude elsewhere.
9. Michael is not being advised to seek new long-term care insurance, because living arrangements may go a long way toward reducing the need for outside help, because home equity can help pay for care, and because other assets may be available, if needed. However, you may wish to

consider such insurance for other reasons (see Explanatory Notes).

10. Elizabeth also is not being advised to seek new long-term care insurance, because her relatively poor health will make premiums extremely expensive.
11. For this plan, there is no longer any apparent need for life insurance benefits to cover survivor needs or legacies payable upon either of your deaths. Unless this insurance was purchased with some other special need in mind, you may consider disposing of it; or you may keep it for future cash value growth.
12. This plan assumes that all current cash value insurance on Michael's life is kept in force indefinitely. It is also assumed that Michael will purchase new life insurance in the amount of $172,000 to assure that the desired amounts are available for heirs upon his death.
13. While Michael is still working, he should save as much as possible in employer-sponsored retirement plans.
14. This plan assumes that your business interests are sold as soon as practical.
15. This plan assumes that your investment real estate is sold in about 3 years.
16. You do not need to liquidate any assets right away in order to cover current cash flows. However, you should consult the attached "Evaluation of Assets for Sale or Re-allocation" report for details about which assets are most eligible for disposal or reinvestment.
17. This plan assumes a mixed investment strategy, with some funds invested conservatively and others not as conservatively, targeting an average annual rate of return 3.6% above inflation.
18. Michael should draw up a last will and testament to assure that the disposition of assets, and other arrangements, occur as desired.
19. Michael should create a living will so that wishes in the event of serious illness will be observed.
20. Michael should sign a health care proxy enabling a designated loved one to make medical decisions in case incapacity prevents one's own decision being made.
21. Michael should set up a durable power of attorney so that a proper substitute can make financial and lifestyle decisions in case of one's own incapacity.

Your Household's Hypothetical Cash Flow

Combination Plan
"Normal" Scenario

This illustration shows what could happen in one set of circumstances. But it is extremely unlikely that exactly these circumstances will occur, and this hypothetical illustration should not be taken as a prediction or forecast. See the attached Explanatory Notes for more information.

		Household Income			Household Expenses				
Year	Net Assets: Start of Year	Work	Social Security, Pensions, Annuities	Invest-ment and Other Income	Necessary Items	Discre-tionary Items	Financial (Debt, Taxes, etc.)	Medical Costs	Net cash Flow for the Year
2010	1,879,062	72,000	16,344	101,077	36,888	73,134	43,278	8,700	27,421
2011	1,951,904	73,440	26,603	78,911	37,645	74,295	76,115	10,530	**-13,447**
2012	2,004,993	74,909	27,273	79,691	38,427	92,490	43,834	12,360	**-5,239**
2013	2,042,550	63,672	68,911	66,677	39,235	78,700	52,280	14,190	14,857
2014	2,101,845	38,968	69,616	67,820	40,068	79,824	40,223	16,020	268
2015	2,148,269	6,624	70,338	168,079	40,901	79,695	40,091	17,850	66,504
2016	2,262,726	0	71,078	72,384	41,761	76,227	28,652	19,680	**-22,858**
2017	2,285,525	0	71,837	70,989	31,212	76,441	27,698	21,510	**-14,034**
2018	2,307,210	0	72,616	70,133	32,130	76,677	26,820	23,340	**-16,217**
2019	2,327,841	0	65,519	69,144	32,846	63,979	17,360	74,714	**-54,236**
2020	2,311,618	0	66,140	64,036	33,198	64,302	29,811	9,058	**-6,193**
2021	2,344,642	0	66,776	63,658	33,577	64,649	29,417	9,647	**-6,856**
2022	2,378,246	0	67,429	63,240	33,985	65,022	28,997	10,274	**-7,610**
2023	2,412,380	0	68,097	62,775	34,423	65,421	28,570	10,942	**-8,483**
2024	2,446,966	0	68,783	62,258	34,891	65,848	28,105	11,653	**-9,456**
2025	2,481,947	0	69,486	61,681	35,081	65,517	27,491	12,411	**-9,332**
2026	2,518,466	0	70,207	61,112	35,297	65,216	26,873	13,217	**-9,284**
2027	2,556,493	0	0	60,546	0	4,158	165,034	109,514	**-218,160**

Key events assumed for this Plan / Scenario (during the 12 months starting in December of the year shown):

2010 - Family business is sold.
2010 - Debt in the amount of $4,500 is paid off.
2010 - Michael begins receiving Social Security.
2012 - Investment real estate is sold.
2012 - First mortgage is fully amortized.
2012 - Royalties ends, if recipient is still alive.
2012 - Mike's boat begins.
2012 - Retirement plan loan is fully amortized.
2012 - IRA withdrawals ends, if recipient is still alive.
2013 - Michael begins gradual (phased) retirement.
2013 - Mike's pension begins.
2014 - Dick's death.
2015 - Michael's job ends.

2015 - Required minimum distributions from Deferred Annuity begin.
2015 - Inheritance from Betty's Mom is received ($100,000).
2015 - Required minimum distributions from Retirement plan begin.
2015 - Required minimum distributions from IRA begin.
2015 - Margaret's death.
2017 - First mortgage is fully amortized.
2019 - Betty's stipend ends, if recipient is still alive.
2019 - Elizabeth's death (income and expenses for this person end; one-time medical expenses occur; bequests outside the family are made).
2027 - Michael's death (income and expenses for this person end; one-time medical expenses occur; funeral expenses are paid; bequests outside the family are made; life insurance benefits are received; estate taxes are paid).
2027 - Mike's boat ends, because of death.

Evaluation of Assets for Sale or Re-allocation

You may wish to consider adjusting your asset portfolio to obtain the level of safety and investment return that you require. This report lists your assets in order starting with those that appear to be best to liquidate or re-allocate first. Factors such as expected rates of return, future taxation, valuation after death, risk, and liquidity may be taken into account, along with your own goals, concerns, and preferences. None of these items can be fully determined in advance, however, and you may have additional reasons of your own for wanting to hold or dispose of specific assets, especially any immediate tax consequences (which are not taken into account here). It is important, therefore, that you treat the following order as a suggestion to be considered carefully by you, but not as the absolutely best order for disposing of or re-investing your assets.

After the name of each asset, two percentages are given. The first estimates the long-term annual rate of after-tax return over the lifespan of the owner(s), assuming a sale just before death; the second estimates the return at the time your heirs might inherit it, if the asset is held that long, taking account of tax treatment both at death, and before. Both estimates assume a "normal" lifespan for the owner(s), assume that the information provided about each asset remains true indefinitely, and that tax laws don't change, none of which is likely to occur. The length of the shaded bar roughly indicates the desirability of retaining each asset, with longer bars indicating those that appear more advantageous to keep.

This evaluation was calculated specifically for the "Combination" Plan, but the analysis would not differ significantly under another plan.

Beach house (-1.79%, -2.09%)

This home will probably not be of great financial benefit to your heirs, compared to other forms of investment. This property is not expected to appreciate much in value. This asset is not liquid and it may be difficult to derive cash from it under some circumstances. You say you are reluctant to dispose of this property. Long-term risk associated with residential real estate is usually relatively low.

Deferred Annuity (1.83%, 1.83%)

Although annuities are tax-deferred during your lifetime, they do not offer advantages at death, and so are not the best asset from the standpoint of your heirs. This annuity is not projected to perform well over time, despite the built-in income tax deferral. You say you are willing to dispose of this annuity. Even with a modest surrender charge, your annuity is reasonably liquid and will become more so over time. By their nature, annuities are (or, in the case of variable annuities, can be made to be) very low-risk assets.

IRA (1.51%, 2.37%)

Although qualified retirement plans offer tax-deferred growth that is generally helpful, this advantage is offset to some extent by the need to take required minimum distributions after age 70½, and by the fully taxable nature of withdrawals; the after-tax return on these particular funds is not competitive. Despite the tax deferral such accounts offer during your lifetime, they are fully taxable at death, and may not pay off as well as other assets for your heirs. You have indicated a reluctance to dispose of this asset. Tax-qualified accounts are generally quite liquid, during retirement.

Investment real estate (2.94%, 3.76%)

This asset may not be very liquid, or may be liquid at certain times more than others. This asset could be of substantial financial benefit to your heirs. Retaining this asset does not appear to expose you to excessive risk.

Checking account (1.03%, 1.03%)

Accounts in banks usually produce low returns and, except for a small exemption, are fully taxable. With low yields and pay-as-you-go taxation, banking accounts generally do not offer advantages for your heirs. This asset is highly liquid and could be an excellent reserve for future emergencies. This kind of asset is nearly risk-free in terms of safety of principal.

Primary residence (3.45%, 3.50%)

This asset is not liquid and it may be difficult to derive cash from it under some circumstances. This property is expected to appreciate considerably in value, and it may be eligible for a special tax break when sold. If not sold, this home could be of significant financial benefit to your heirs. You say you are reluctant to dispose of this property. Long-term risk associated with residential real estate is usually relatively low.

AT&T Bonds (3.25%, 2.92%)

We are taking account of your willingness to dispose of this asset. Bonds are usually relatively safe investments (although they can carry risks, and some bonds are high-risk). Publicly traded bonds are usually very liquid.

Saleable personal valuables (2.50%, 2.50%)

These assets will probably be of relatively minor benefit to your heirs, compared to alternative investments. Non-income-producing assets often carry relatively low risk, but even so, values can fluctuate, and timing a sale can be very important.

Retirement plan (4.29%, 4.56%)

You have indicated a willingness to dispose of this asset. Tax-qualified accounts are generally quite liquid, during retirement. The tax-advantaged return offered by this retirement account makes it a reasonable asset to hold onto. Despite the fact that such accounts are taxable at death, the tax deferral and expected performance during your lifetime will still build up significant value for your heirs.

Put options (5.57%, 5.55%)

This asset appears riskier than your risk profile suggests is suited for you. You say this asset can be disposed of. Assuming that this asset is eligible for a step-up in basis at death, it is expected to be of higher than average benefit to your heirs. This investment has a high rate of return.

Hayfield land (5.27%, 6.34%)

This asset may not be very liquid, or may be liquid at certain times more than others. We also note that you are willing to dispose of this property. Retaining this asset does not appear to expose you to excessive risk. This asset is expected to generate a good return during your lifetime. This asset could be of substantial financial benefit to your heirs.

Bond Mutual Fund (4.59%, 4.59%)

You have indicated a willingness to sell this asset. This fund is currently invested relatively conservatively, which suits your risk profile. This fund is expected to perform relatively well during your lifetime. Mutual fund accounts are highly liquid.

General Motors stock (4.74%, 4.98%)

You say your are willing to sell this asset. Risk can be a significant concern with stock investments. This investment is hypothesized to do well during your lifetime. By receiving a probable step-up in basis at death, plus hoped-for investment performance, your heirs should benefit from this equity investment. In general, publicly traded stocks are readily sold at any time.

Investment real estate (5.28%, 6.64%)

This asset may not be very liquid, or may be liquid at certain times more than others. Retaining this asset does not appear to expose you to excessive risk. This asset is expected to generate a good return during your lifetime. This asset could be of substantial financial benefit to your heirs.

Mike's Life Insurance Policy (3.50%, 6.89%)

A solid return on your insurance cash values is expected during your lifetime. Insurance cash values are generally low risk assets, or if not, can readily be made so. Life insurance cash values are usually accessible reasonably quickly and easily through policy loans or surrenders. Life insurance death benefits are income-tax free, and should be considerably higher than the cash value, which makes this asset a very good one from the standpoint of your beneficiaries.

Writing (48.53%, 52.13%)

This asset is expected to generate a good return during your lifetime. This asset could be of substantial financial benefit to your heirs.

Explanatory Notes

Plans:

This report outlines two plans that attempt to make good use of the resources and opportunities you have before you. Of course, no plan can guarantee success, and no plan can fully account for all of life's surprises. We strongly urge you to update this analysis periodically. In the meantime:

The "No Major Changes" plan assumes that the principal factors that determine your finances work out as you initially specified. This means working as much or as little as you currently intend. It also means that your overall standard of living, excluding medical expenses and most financial obligations (which you may not be able to reduce easily), stays as it is. Of course we do expect your expenses to change, due to inflation, or due to normal changes in emphasis as you age, and such changes are taken into account. But we assume that these changes are neither more nor less than those required to maintain your current living standard.

The "Combination" plan assumes that retirement is delayed 3 years. That is, it assumes that Michael will wait until year 6 to end current employment. Your standard of living (i.e., all expenses other than medical and non-mortgage financial obligations) is reduced by 25%. Additional expense variations over time due to inflation or to normal changes in spending patterns are also reflected in this plan. Note, therefore, that this does not just mean reducing the items that you would normally expect to reduce at retirement anyway. It means a real reduction in your style of spending and, if there is not enough "fat" in your current budget, in your style of living as well.

Report cards:

Each plan is given an overall grade, then is further evaluated under six sets of conditions ("Scenarios") that reflect both "normal" conditions and other concerns you have indicated.

The "Overall grade" is a "weighted average" of the individual grades for each scenario. This simply means the average of the other grades, but giving more importance to the scenarios that you have indicated concern you the most. The grading system is intended to be similar to a school report card. To be more specific:

A = Goals are expected to be met, with room to spare.
B = Goals are expected to be nearly met, but not quite.
C = Results are expected to fall short of goals, but further adjustments may produce acceptable results.
D = Substantial changes will be needed to bring results and goals in line.
F = This is a recipe for financial disaster if these circumstances occur.

The "normal" scenario is intended to show what would happen under "expected" or "typical" future circumstances. This means expected average future events, with neither good nor bad surprises. Of course, the "Normal" scenario will not occur, because reality always varies from expectations, sometimes by a little, sometimes by a lot. That is why other, less favorable scenarios are also shown. Here are the assumptions that we use in the "Normal" scenario:

1. Everyone lives to the expected average age for people of their sex, current age, health, and smoking status:
   Michael lives to age 83.5.
   Elizabeth lives to age 75.2.
   Alexandra lives to age 85.2.
   Dick lives to age 91.2.
   Margaret lives to age 95.3.
   (For background, see "Extended Help" under the online System Help for: "What is Your Life Expectancy?").
2. You use a mix of conservative and somewhat more aggressive savings and investments:
   Your annual pre-tax return on saved and invested funds is assumed to be 6.1%.
   (See further notes below for more information about savings and investments.)
3. Inflation consistently runs at a moderate rate:
   The annual inflation rate is assumed to be 2.5%.
4. Medical costs, unless already higher than average, will gravitate to historical averages:
   Medical expenses tend to increase about 2% for each year of age.
   Annual medical cost inflation will be about 6.5%.
   Normal medical costs will be adjusted, based on current health.
      Adjustments may range from 25% below normal to as much as four times normal.
   Extra out-of-pocket medical costs are assumed to be $20,000 per person in the year of death (before inflation).
   No other long-term medical care costs are assumed in this scenario.

The "long life" scenario illustrates the consequences if other assumptions are held steady, but everyone in the household lives longer. In most cases, a longer life means an increased financial risk, because your money has to last

that many more years. In this scenario, life expectancy of household members is 10 years longer per person than assumed in the "Normal" scenario.

The "inferior returns" scenario tests the impact of adverse investment experience. Although most people invest more conservatively when they get older, even conservative investments can do worse than expected. Furthermore, adverse market conditions tend to hurt you more if they occur early on, before you have withdrawn and spent much of your savings. Under this scenario:

1. Your average pre-tax return on saved and invested funds drops to 5.1% (compound average annual rate).
2. Your investable funds are assumed to lose 10% of their value for each of the first 3 years, before recovering.

The "high inflation" scenario estimates what would happen if everything stayed "normal" except the inflation rate. The assumed average inflation rate under this scenario is increased to 7.5%. It is not assumed that high inflation always translates to proportionately higher investment returns. In this scenario, the pre-tax return on saved and invested funds is increased only to 8.6%.

The "high medical expense" scenario estimates what would happen if medical expenses turn out to be much higher than expected. All assumptions are kept at "normal" levels in this scenario, except:

1. Expenses for medical care are multiplied by a factor of 2.0.
2. Both of you are assumed to need 5 years in long-term home health or nursing home care.
   (Assumed costs are based on family arrangements, insurance, and your state of residence.)

The "high medical expense and long life" scenario tests the consequences if both situations that appear to most concern you occur. This scenario assumes the following deviations from "normal:"

1. Each person in the household lives 10 years longer than normally expected.
2. Expenses for medical care are multiplied by a factor of 2.0.
3. Both of you are assumed to need 5 years in long-term home health or nursing home care.

Social Security:

The longer you wait to start taking Social Security, the higher your monthly check will be. The best time to start taking Social Security benefits, therefore, depends on the trade-off between getting more checks vs. getting higher checks. The recommendations made under each Plan reflect your expected benefit levels and life expectancy. The analysis also takes into account your work plans, since up to Social Security's normal retirement age there is an "earnings test" that can reduce your Social Security benefits. The starting age recommendation also weighs your overall income, because you can lose some of your benefits to income taxes depending on how much other taxable income you receive.

Pension plan options:

Which pension option will best pay off for you depends on how long both of you live. Of course, no one can know for sure, so a choice of pension options is always something of a gamble. The pension recommendation is partly based on an estimate of normal life expectancy, but also takes into consideration what would happen if either of you died prematurely.

Accessing home equity:

Various techniques are available to turn part or all of the value of your home into cash. For most people, the simplest and best, if you do not wish to sell the property, is to obtain a new mortgage, refinance an existing mortgage, or take out a home equity line of credit. This option lets you retain ownership of your home, and gives you flexibility in the amount of cash you receive. A "reverse mortgage" is an arrangement in which you trade eventual ownership of your home for cash and the right to continue living there for the rest of your life. Not everyone qualifies for a reverse mortgage, but it is worth looking into if you need more money than you are likely to be able to repay. A "private annuity" can provide the same benefits, but is usually set up with children or someone else you know; this can be arranged with much more flexibility, and may allow you to keep the property in the family, if you know someone who can afford to provide you with funds and is willing to wait to receive the property. You might also consider renting out part of your home, or taking in one or more boarders. For more information, see "Extended Help" under the online System Help for a copy of "Options for Obtaining Cash from Your Home's Equity."

High-interest debt:

If you maintain debt with high interest rates, you are essentially borrowing money at high rates so you can invest it at lower rates. Furthermore, money you earn on savings and investments is usually taxed in full or in part, reducing its benefit to you, while debt payments generally are not deductible, making them more expensive. In addition, the interest payments you save by paying off debt are "guaranteed" savings, helping you out immediately and permanently. For all these reasons, repayment of high-interest debt is one of the most lucrative as well as one of the safest "investments" you can make.

Long-term care insurance:

Where new long-term care insurance is not recommended, this is because it appears probable (though not certain) that you will be able to cover any such needs in other ways. Of course, no guarantee can be given along these lines. Furthermore, some people opt for long-term care insurance to protect their other assets, or to comfort themselves or other family members that this potential financial problem is explicitly covered. If these or other personal reasons apply to you, you should discuss the matter further with your advisor.

Existing life insurance:

There are many varieties of life insurance, not all of which are well suited to older individuals. Your advisor can help you determine what kind of policy would be appropriate. For more information, see "Extended Help" under the online System Help for a copy of "Life Insurance During Retirement: Basics You Need to Know."

Roth conversions:

So-called Roth plans are taxed differently from traditional IRAs and employer-sponsored retirement plans. While the latter generally defer all taxes until you withdraw your funds from the plan, Roth accounts require that you pay taxes on your plan contributions up front. But with a Roth plan you never pay federal income taxes again, meaning all of the future earnings on the plan are income tax-free. When you convert from a traditional plan to a Roth plan, you do have to pay ordinary income taxes on the amount that you convert. But then you don't pay income taxes on future growth in that account. You also are not required to start withdrawing money after age 70, as you are with traditional accounts, so you may be able to keep the tax shelter going longer. Roth accounts generally are available with the same investment options and fees as traditional IRA plans.

In general, you are better off making a conversion if you will be in a higher tax bracket later, and not making it if you will be in a lower tax bracket later. When a conversion is being recommended, it may be appropriate to spread it out over several years. Since the amount you convert is taxable, that by itself may push you into a higher tax bracket (although, as of 2010, you can spread the Federal tax over two years, which reduces this effect). If you convert only amounts each year that will not put you into a higher bracket, it may take a number of years to convert the full amount, but this is typically the best way to do it. You should review the optional Cash Flow or Expense Detail reports to get a rough idea of when your taxes might be at their lowest, and therefore the best time to plan on proceeding with a Roth conversion. Also note that times when the financial markets have fallen considerably can be good times to convert to a Roth IRA, because lower account values mean lower taxes; when the markets rebound, those gains will be tax-free.

Order of liquidation of assets:

Your assets have been evaluated according to various criteria. In additional to risk (a negative factor) and liquidity (i.e., quick availability, generally a positive factor), we also looked at the expected long-term financial performance of each asset. Performance is evaluated on an after-tax basis as of life expectancy, net of both income and capital gains taxes (before death), and also taking into account tax treatment upon death. If any tax-sheltered assets require taxable withdrawals during your lifetime, the tax effect of these is also taken into account. Finally, we look at the balance of ownership of assets between the two of you.

These factors are estimated for each asset, then weighed according to your general goals and concerns, as well as any stated preferences with regard to particular assets. The listing of assets most eligible for liquidation reflects this evaluation. Of course, in any given case you may have special reasons for moving an asset up or down on the list, so this ranking should be taken as a starting guideline, not necessarily as a final determination.

Assumed investment return:

The target investment rate of return is set to reflect your own feelings about investment risk, but it also recognizes that in your older years your investments should be relatively conservative. Although taking more risk is likely to produce higher returns, it also means a greater chance of lower returns, or even of losing some portion of your money. When you are young and still have many years of work in front of you, you can afford to take more chances, because you have the time and are more likely to have the means to make up for bad luck. But in retirement, your chances of covering losses are severely reduced. In general, therefore, you can only afford to take more risk if you can afford to lose money (for more information, see "Extended Help" under the online System Help for a copy of "Can You Afford to Take Investment Risks?").

This analysis does not provide specific investment recommendations. You should discuss saving and investment choices with your financial advisor.

Wills:

Every adult, especially older adults, should have an up-to-date last will and testament. Such a document is the best assurance that what happens, financially and otherwise, after your death is in line with your wishes.

Living wills:

A living will states your wishes regarding extraordinary medical measures. Having a living will makes it more likely that your wishes will be understood and followed. This is better for you, and it also takes a large burden off of relatives and medical caretakers who would otherwise have to try to figure it out on their own (for more information, see "Extended Help" under the online System Help for a copy of "Living Wills and Beyond: Planning for Possible Future Incapacity").

Health care proxies:

A health care proxy authorizes someone you trust to make medical decisions for you, if you are mentally incapacitated. Without such authority, decisions may fall to medical caretakers or others whose decisions might not be based on your or your family's wishes.

Durable powers of attorney:

A durable power of attorney gives someone else, under circumstances you can specify, the ability to act legally in financial or other matters for you. Such a document can be very beneficial if you are incapacitated for some reason and need someone to sign checks, make financial or legal decisions, or handle other matters on your behalf.

Household Hypothetical Cash Flow report:

This report assumes that the specified Plan and Scenario occur as described, and that all assumptions and decisions described in the Plan details occur (unless otherwise specified). In addition, the report assumes that other events and decisions occur at logical times: for example, that when assets need to be liquidated to cover expenses, assets that are more liquid and less tax-advantaged generally will be used first. Expense projections are based on current expense levels, typical patterns of expense changes that occur with aging, and other assumptions specified for the illustrated Plan and Scenario. Other details you may wish to know about include:

1. YEAR: Each row represents one 365-day period, with the first one starting December 16, 2010. In the remaining notes for this section, "the year" refers to such a 365-day period, not to the calendar year.

2. NET ASSETS: This is the estimated value of household assets at the start of the year, minus any debts. It takes into account both the cash flow documented in the other columns of the report, and other events, such as the underlying growth in market value of real estate or family businesses, or contributions to retirement plans. Since some non-listed events are reflected, as well as debt amortizations (where applicable) that appear as cash expenses but do not affect net worth, the change in net assets from one year to the next often does not equal the cash flow during that year.

3. WORK: Estimated income from employment.

4. SOCIAL SECURITY, PENSIONS, ANNUITIES: Estimated income from these sources, whether currently received, or anticipated under the Plan. The common element among these sources is that they are regular payments from outside institutions that are not dependent on assets owned by the household.

5. INVESTMENT AND OTHER INCOME: This includes income from all other sources. Investment income includes all income earned on savings and investments, whether it is received in cash or not. This means that capital gains on stocks, bonds, or other securities are included, as is the growth in any tax-advantaged accounts such as (for example) IRAs or employer-sponsored retirement accounts, and growth in the value of personal property that could be sold someday - even though such gains are not "cash" events, strictly speaking. Investment income also includes direct income (i.e., rental income or business earnings) on real estate or family businesses. However, gains in the underlying

market value of real estate and business assets are not included here or in other columns of this report, except as a change in net assets. "Other" income means all other income sources, such as rents, copyrights, patents, alimony, income from businesses that have no current market value, and any other miscellaneous items that have been entered, including both ongoing and lump sum amounts.Note that investment income in the first year will generally not match income as input, since we assume that assets will shift as part of the implementation of this plan.

6. NECESSARY EXPENSES: Any line between "necessary" and "discretionary" expenses is somewhat arbitrary. For purposes of this report, "necessary" expenses include housing costs (mortgage or rent, real estate taxes, home insurance, utilities), plus food, clothing, and transportation.

7. DISCRETIONARY EXPENSES: This category includes most other household expenses, including entertainment, travel and vacations (incl. all expenses for second homes, if any), retirement plan contributions, charitable and family gifts, vehicles other than the family car, and other miscellaneous household expenses.

8. FINANCIAL EXPENSES: This includes most debt payments (other than home mortgages), taxes (other than real estate taxes), and life insurance premiums. Taxes include any Social Security taxes payable on employment income, federal and state/local income taxes, and estate taxes. Federal income taxes include both regular income taxes and capital gains taxes, which are estimated according to current tax laws, with assumed future inflation adjustments. Federal taxes reflect current law through 2010, with rates increased to pre-2002 levels thereafter. State and local taxes, where applicable, are estimated based on current tax rates on earned income for the present state of residence; no special adjustments are made according to the nature of the income, although many states allow adjustments of various kinds. Estate taxes are only very roughly and arbitrarily estimated (at no more than 10%), as the current estate tax structure makes any useful predictions impossible. "Financial Expenses" also includes other financial events that occur at death: a modest allowance for funeral expenses (except if prepaid), and the transfer of any applicable bequests outside of the household. Any life insurance proceeds payable at death to beneficiaries inside the household are counted as reductions to financial expenses, so that in the year of a family member death, this figure can be a negative number.

9. MEDICAL COSTS: This column includes projected future costs of medical care and medical insurance, including the costs of long-term care and long-term care insurance, if applicable.

10. NET CASH FLOW: This equals the total of the Income columns, minus the total of the Expense columns. As explained above, the Net Cash Flow often does NOT equal the difference in Net Assets from one year to the next, because the change in assets may include items not listed under income and expenses.

IMPORTANT: Warning and disclaimer (System released November 2010, Version 3.18A):

This report reflects our best effort to help you meet your financial goals, given your current situation as you have described it, and taking into account the uncertainty of the future. In all cases, if you knew exactly how the future would unfold, you would do many things differently. The "normal" scenario is only a current best guess, and any adverse scenarios analyzed are not intended to illustrate the worst possible case. The purpose of this report is to produce a prudent plan that will give you a relatively good chance of success in an environment where little is certain. But it cannot predict the future, and therefore it should be updated regularly so that you can adjust your plans as circumstances change. If these limitations are not acceptable to you, you are strongly advised not to take this report into account in your financial planning.

The analysis in this report is driven by software developed by Still River Retirement Planning Software, Inc., Harvard, Massachusetts.