

2011 Financial Planning Challenge Case Study

You were recently granted the CFP[®] certification and just started working for a financial advisory firm that specializes in meeting the unique needs of individuals and families.

You recently received a letter from Jonathan Jones requesting to meet with you. In response, you requested some additional information from the Jones family to help prepare for your first meeting and create some alternative retirement strategies for them. Today you are meeting with Jonathan and his wife Samantha to discuss alternative retirement income planning strategies.

Jonathan is currently 67 and retired two years ago at 65. Samantha is also retired and is 69. Samantha worked only part-time as she was primarily a home maker. Both have defined contribution plans that remain with former employers. The Jones lived comfortably on a combined annual income of \$75,000 prior to retiring. They currently are considering increasing some part-time employment opportunities that will pay up to \$25,000 annually. They are able to work a flexible amount of hours and expect to earn \$12,000 to \$25,000 annually before taxes and other withholdings.

The Jones provided additional information that is summarized in the attached Exhibits. Exhibit 1 lists the financial assets they hold in various investments. Exhibit 2 is their net worth statement as of September 1, 2011. Exhibit 3 summarizes expected cash flow for next year. Exhibit 4 is an inventory of insurance policies and key estate documents.

Based on the family's health history you have estimated the life expectancies of Jonathan and Samantha to be 90 and 92, respectively. They are excited to work part-time for at least four years, but would like to spend more time with their three children and grandchildren who live in three different states. They have decided to purchase a motor home between \$50,000 and \$100,000 and would like your advice on how much they can afford. Although Samantha made it very clear she will have total veto power and has her eye on the \$100,000 model. They are concerned about rising gas prices, but plan to park their motor home near their children most of the time rather than extensive traveling.

Health care costs, Social Security benefits, income taxes, inflation, and the federal deficit are all major concerns for them. Their current social security benefits are \$1,700/month for Jonathan and \$850/month for Samantha.

All of their three children are married and they are considering starting college funds for their 7 grandchildren. They have not told their children of these plans, but are seeking your advice on how much they could comfortably contribute annually. They have two grandchildren who are 2 years old, two grandchildren who are four years old, a one year old, a six month old, and a five

month old. Their children have indicated that they definitely are not planning on any more children.

On August 30, 2011 the Jones completed a risk tolerance questionnaire that indicated they are exactly on the median in terms of risk tolerance. They would also like you to review their current insurance policies and documents to determine if they provide adequate protection.

The Jones are wondering what a reasonable sustainable withdrawal rate is for them during retirement. They also would like to have some idea of the probability of maintaining that goal if possible. They have heard of annuities, but do not understand them. Some of their friends said they are very much in favor of annuities and others said they invested in them ten years ago and it was the biggest mistake they ever made financially. The Joneses are very confused with respect to annuities and the various types of annuities. It seems that their friends are not talking about the same type of annuity, but they are too confused to make sense of any of their advice.

The policy of the firm is to provide financial advice under the assumption that inflation will average 3% per year and income taxes will rise in the future. Social Security benefits are definitely not expected to keep pace with inflation, but are expected to remain constant going forward.

Required

Prepare an Investment Policy Statement (IPS)

Prepare a welcome letter to the Jones

Perform retirement, education, survivor and disability analyses to assess ability to meet current needs and future goals

Develop at least two retirement income strategies; one that includes annuities and one with no annuities

Discuss the advantages and disadvantages of your two recommended strategies

Develop specific recommendations

Determine an appropriate asset allocation based on the results of your analyses and recommendations, within the constraints of the IPS

Develop a presentation-ready summary of your analyses, strategies and recommendations for your next meeting with the Jones and be prepared to use this presentation during the Financial Planning Challenge - Case Competition session

Please NOTE: All participants are prohibited from seeking any advice or guidance from persons not participating in this challenge.

Exhibit 1 – Portfolio assets for the Jones as of September 1, 2011

	Jonathan		Samantha		Joint Brokerage	
	401(k) Value	401(k) Basis*	401(k) Value	401(k) Basis*	Value	Basis*
SCS			\$12,600			
F	\$11,200		\$16,000			
GE					\$26,400	\$25,500
Janus Overseas (JAOSX)	\$60,200					
iShares MSCI BRIC Index (BKF)					\$33,600	\$30,200
iShares S&P 500 Index (IVV)	\$58,000		\$12,000			
Vanguard Inflation-Protected Secs (VIPSX)	\$32,000				\$41,000	\$39,200
Templeton Frontier Markets (TFMAX)	\$125,000					
iShares MSCI Emerging Markets (EEM)	\$65,500					
Goldman Sachs Large Cap Value (GSLAX)	\$58,700					
Totals	\$410,600		\$40,600		\$101,000	

	Jonathan		Samantha	
	Traditional IRA Value	Traditional IRA Basis*	Traditional IRA Value	Traditional IRA Basis*
IBM			\$3,200	
GE	\$8,500		\$2,200	
Totals	\$8,500		\$5,400	

Grand Totals	\$419,100		\$46,000		\$101,000	
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- **Basis:** For 401(k) columns there is no company stock for NUA purposes. All contributions made to 401(k) accounts were made with pre-tax dollars, and all IRA contributions were deductible. For Joint Brokerage, basis represents “cost basis” for federal capital gain or loss purposes.

Exhibit 2 -- Jones Balance Sheet as of September 1, 2011

Assets	Jonathan	Samantha	Joint	Total
Checking Accounts	\$ 1,000	\$ 2,500		\$ 3,500
Savings Accounts	\$ 3,500	\$ 1,500	\$ 28,200	\$ 33,200
Certificates of Deposit	\$ 55,000	\$ 25,000	\$ 60,000	\$ 140,000
Total Cash Amount	\$ 59,500	\$ 29,000	\$ 88,200	\$ 176,700
Financial Assets (Exhibit 1)	\$ 419,100	\$ 46,000	\$ 101,000	\$ 566,100
Personal Assets				
Primary Residence*			\$ 350,000	\$ 350,000
Collectibles (art, antiques)			\$ 1,500	\$ 1,500
Jewelry and Valuables			\$ 5,000	\$ 5,000
Automobiles		-	\$ 35,000	\$ 35,000
Home Furnishings			\$ 25,000	\$ 25,000
Other Personal Assets		-	\$ 9,000	\$ 9,000
Total Assets				\$ 1,168,300
Liabilities				
		Monthly Payment	Annual Rate	Outstanding Balance
Credit Card Balances	\$	500	18.00%	\$ 12,500
Automobile Loans	\$	700	6.00%	\$ 20,400
Home Mortgage	\$	1,217	7.00%	\$ 52,000
Home Equity Loans	\$	400	5.00%	\$ 12,000
Total Liabilities				\$ 96,900

*Home was recently appraised at \$350,000 which is well supported by recent sales in their neighborhood.

Exhibit 3 -- Jones Cash Inflows (2011 estimated)

Cash Inflows	Monthly	Annually
Salaries	\$ 1,042	12,500
FICA	\$ (80)	(957)
Federal withholding	\$ (133)	(1,597)
State withholding	\$ (37)	(438)
Net Social Security	\$ 2,175	26,100
Net After-tax **	\$ 2,967	35,608

Cash Outflows	Monthly
Charitable Contributions	\$ 300
Utility Expenses	\$ 325
Maintenance Expenses	\$ 200
Insurance Premiums	\$ 250
Real Estate Taxes	\$ 370
Gasoline	\$ 280
Clothing	\$ 90
Child Care / Tuition	\$ 0
Groceries	\$ 450
Medical Expenses	\$ 120
Household Items	\$ 50
Entertainment	\$ 100
Travel / Vacations	\$ 300
Dining	\$ 260
Other Expenses	\$ 100

Payments on Liabilities

Credit Card Balances	\$ 500
Automobile Loans	\$ 700
Home Mortgage	\$ 1,217
Home Equity Loans	\$ 400
Total Outflows	\$ 6,012

** Does not include withdrawals from retirement plans or other assets

Exhibit 4 – Summary of Insurance Policies and Estate Documents

	Jonathan	Samantha
Life Insurance		
Group term via previous employer	Face = \$250,000	Face = \$200,000
Individual term or permanent	None	None
Disability Income Insurance		
Group LTDI via employer (paid with pre-tax dollars)	None	None
Individual	None	None
Long-term Care Insurance		
Group LTC via employer	None	None
Individual	None	None
Estate Documents		
Will	Simple, 1998	Simple, 1998
Power of Attorney	No	No
Health Care Directive	No	No
Trusts	No	No

NOTES: No umbrella liability coverage. Standard auto & home policies – Auto = \$500 comprehensive and collision deductible; Home = \$500 deductible.