

April 12, 2013

Mr. and Mrs. Billy Ringo
Atlanta, GA 30303

Mr. Ringo: Based on the information you have provided, please find my **Financial Assessment** below:

1. **Longevity Risk:** At the present time, it appears you could face premature portfolio exhaustion based on your current asset allocation. Currently, the 10-year T-Bond is yielding less than 2%. This is below the long-term rate of inflation of 3.0%. You appear to be losing altitude each year.
2. **Asset Allocation:** I would recommend, at least **40%** exposure to equity. Specifically, a portfolio that focuses on Total Return (dividends plus capital appreciation). The current dividend yield of the S&P 500 is 2.2%. Note: Your **Risk Tolerance** profile suggests you would be comfortable with **60%** equity exposure. By definition, increasing your equity exposure will increase your long-term expected return profile and thus improve portfolio longevity. Also, careful consideration as to the risk profile of your 59% **bond allocation** should be addressed. Going forward, as interest rates rise, bond prices will decline and thus your bond portfolio could decline in value over time. Currently, 70% or \$198,000 of your bond portfolio has maturities greater than 5-10 years.
3. **Long-Term Care Insurance (Medical Reserve):** I would recommend looking into LTC insurance. Use your annual excess cash flow to fund a policy. Currently, for a premium of \$350/month you can receive a monthly benefit of \$5,000/month for 2.5 years. LTC insurance is always a solid choice if the premiums are less painful than the cost of care when it comes out of your pocket 100%. Retirement costs are a function of future inflation, changes in lifestyle and medical costs.
4. **Required Minimum Distributions (RMDs):** Billy will be age 70 ½ in 2014, which is his first distribution calendar year. For 2014, his RMD will be in the range of \$18,518 (\$500,000/27 Uniform Lifetime Table factor) which will be taxable income. He can delay taking his 2014 RMD until April 1, 2015, but then he would have to take two RMDs in 2015 (and both would be taxable that year). If Billy waits until 2014 or later to do a conversion, the RMD for that year must first be taken and the RMD is not eligible for conversion. Going forward, it is quite likely that adding \$18,000 of income to your tax return could produce significantly more taxable income than \$18,000. This is because as your other income rises it causes social security benefits to become taxable.
5. **Roth IRA Conversion:** I would recommend converting a part or percentage of your Traditional IRA funds to a ROTH IRA this year. This is an estate planning tool as well as a strategy that would benefit you. It seems like you have sufficient non-retirement money to pay the taxes on a conversion. By doing so you are achieving more flexibility and avoiding tax on future asset appreciation. While the conversion itself is taxable, no RMDs are required from the Roth IRA in the future **plus** the earnings on the Roth will compound tax-free. Billy's Roth IRA beneficiary would inherit these monies tax-free after his death. Note: Watch that adding too much additional income to your tax return does not cause the unintended effect of causing social security benefits to become taxable.
6. **The I/E Ratio (IRA/Estate):** This ratio is extremely high at 58% (\$765,000/\$1,325,595) in your case which means that you must pay a toll to access these funds. Currently, your balance sheet appears too illiquid.

Conclusion: Any investment firm that missed the strongest market rally in the past 40 years, and has kept clients in bonds or cash really cannot be the brightest light bulb in the community. Please let me know if I can be of further assistance to you.

Christian Koch, CFP®
Certified Financial Planner™ professional