

**Easy Money
vs
Golden Years
Tutorial**

Which to Use?

- First, you need to know your client
 - What do they need you to accomplish for them?
 - How broad is their scope of concerns?
 - Are they highly detail oriented, or more concept focused?
 - Is this a family with lots of financial concerns, or a retired couple simply wondering how long their money will last?
- The next slides will help you to select the right set of reports.

Scope of Content vs Depth

Easy Money is a comprehensive plan;
broad in scope
(number and variety of topics covered.)

Golden Years is
narrower in scope
(fewer topics
covered) but more
detailed and in-
depth, particularly
relating to tax
calculations.

Appropriate Age



Youth

Earning/Accumulation years

Retirement



Easy Money

(Most appropriate for client in the accumulation years.)



Golden Years

(Designed for client near or in the retirement years.)

Easy Money vs Golden Years

- Easy Money

- Goal Solving style.
- Best for client still in the accumulation phase.
- Worst case analysis.
- Taxes computed first year.
- Estimated taxes thereafter.
- Computes savings or rate required to solve retirement shortages.
- Comprehensive plan including life insurance, estate, disability, etc.

- Golden Years

- Cash Flow style.
- Best for client in or near retirement.
- Optimized analysis.
- Taxes computed every year.
- Uses full IRS tax rate calculations.
- Includes tax indexing, phaseouts of itemized deductions, etc.
- Focused on income, expenses, assets and taxes.

Goal Based vs Cash Flow

- A **goal based** program looks at the clients goals, (retirement, life insurance, etc.) and determines whether the clients current path will take them there.
- If a deficiency is determined, the program would then suggest changes required to reach the goal.
- A **cash flow** program is more concerned with an evaluation of the clients current assets, income, expenses and taxes.
- Each year the effect of each of these items is evaluated and the client can see whether income sources are sufficient to make capital last or if withdrawals from principal will be required.

Worst Case (Easy Money)

- Worst case means:
 - Before retirement, the only amounts deposited to their accounts is the money they are now depositing. Any surplus cash flow is ignored. In other words, is what they are doing now going to accumulate enough money to reach their goals.
 - When they pay their taxes, the taxes due from interest, dividends, etc. are paid out of the earnings. In other words, they only reinvest the “after tax” earnings from savings and investments.

Optimized (Golden Years)

- Optimized means:
 - Each year, beginning immediately, any surplus cash flow is invested (based on your direction for a percent to be allocated to Taxable, Tax Deferred, Tax Free and Equity or Other asset types.)
 - Income taxes are accurately computed each year using the real IRS rate tables, including indexing, phase-outs, AMT, capital gains, etc. (Not based on an estimated or flat marginal rate.)
 - When possible, taxes are paid from the client spendable income sources and the gross returns on savings and investments are reinvested each year before tax.

Income Tax – Easy Money

- Current year – income tax is computed using full IRS tax rates, phase-outs, AMT, etc.
- After first year - the marginal rate is applied to taxable income unless the user selects an optional rate for ordinary items and for equity accounts.
- Rate of return on assets is taxed immediately, including:
 - Interest, dividends, capital gains, appreciation.
 - The program assumes the portfolio is turned over each year. Interest will is taxed at the ordinary rate.

Income Tax – Golden Years

- A complete tax calculation is performed every year:
 - Income sources are measured and taxed separately:
 - Earned income, self employment, interest, dividends, capital gains, other sources.
 - Indexing is included:
 - Marginal tax brackets, personal exemptions, standard deductions, allowable IRA contributions, etc.
 - Phase-outs are considered:
 - Itemized and standard deductions, exemptions, etc.
 - Includes AMT, stock options treatment and more.

Handling of Cash Flow

- Easy Money

- Prior to retirement, any cash flow surplus or shortage is ignored, with the exception of “Other income or expense” items entered.
- Easy Money evaluates future assets based only on what the client says he is now investing, not on what he could be investing. (Worst case scenario.)

- Golden Years

- Immediately any cash flow shortage is withdrawn from assets, and any surplus is reinvested into non-qualified assets.
- This cash flow model attempts to show what would happen if the client carefully used all resources available to maintain the asset base. (Optimized scenario.)

Results of differences

- Easy Money will generally show a lower amount of capital available for retirement.
- Money will run out sooner.
- Again – based on a worst case scenario.
- Golden Years will generally show a larger amount of capital available as time passes.
- Money will last longer.
- Again – based on an optimized scenario.

Monte Carlo

- Both Easy Money and Golden Years include the Monte Carlo Simulation report.
 - The original projection (showing the amount of capital available at any given year) is recomputed 10,000 times.
 - Every year of each projection a new rate of return for the entire portfolio is randomly selected within a high/low range based on two standard deviations.
 - Includes consideration of all cash inflow and outflows, taxes, inflation, etc.
 - The Monte Carlo “tornado” chart graphically illustrates the results of the Monte Carlo projection, and indicates the probability of having any money left at the last life expectancy.

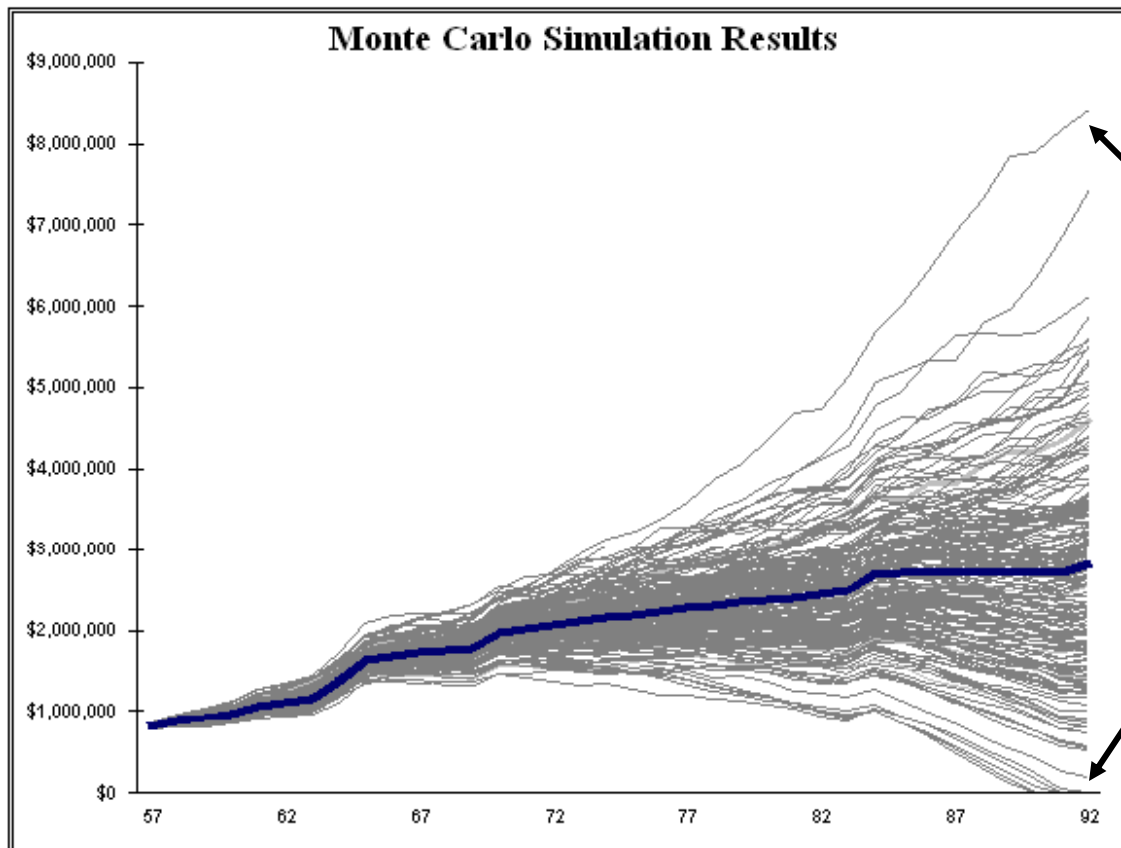
Monte Carlo Tornado Chart

Results from 1000 Monte Carlo Simulations at last life expectancy:

Original Retirement Projection	\$2,822,629	Percentage of results above zero*	99%
Percentage within 20% of original	31%	Minimum (worst case) result	\$0
Percentage of results above original	48%	Average Monte Carlo result	\$2,858,487
Percentage of results below original	52%	Maximum Monte Carlo result	\$8,762,349

*Percent of times money is remaining at last life expectancy.

Probability of any money left at last life expectancy.



Range of possible results.

Audit Trail

- Have you ever had a client ask you “Where did you get that number?”
- Both Easy Money and Golden Years include a unique “Audit Trail” function.
- You are always prepared to answer the question.

Audit Trail

Income needed							Social Security		Minimum Distrib.		G1
		Mtg. & Loan	Insurance	Personal expenses	Itemized deduction + \$ to heirs	Total expenses (incl inflation)	Peter 65	Betty 65	Peter	Betty	
Ages		payments	premiums	expenses			3.90%	3.90%	After tax at:		
C1	Sp								25% before ret.		
									25% after.		
41	41	17,340	2,035	50,292	8,750	78,417	\$17,288	\$21,197			
42	42	14,517	1,654	41,998	8,750	66,919					
43	43	11,280	1,727	43,838	8,750	65,595					

Each page has a letter code at the top.

97	97									
98	98									
99	99									
		G1	G2	G2	G4	G4			C5	C5

Normal retirement at age 65

The "Audit Trail" notes, either at the bottom of columnar reports or at the side of text areas, will lead you to the page where the numbers originated.

Income needed:	Total monthly expenses in today's \$ (a)	Inflation rate	Inflation adjusted expenses (b)	Cumulative expense Retirement through life expectancy	
Current living expenses	\$7,693	4.38%	n/a	n/a	
Living expenses at age 41	7,693	4.38%	\$6,535	\$6,417,938 (c)	G1
Changing at age 84 to ...	2,681	3.50%	13,061		
Sources of income: (d)				Total income (d)	
Social Security - Peter	1,441	3.90%		1,186,623	G1
Social Security - Betty	1,766	3.90%		2,048,662	G1
Pension - Peter	750			6,117,068	G2

Why can't the two be combined?

- Occasionally we are asked why we don't just combine the two programs into one.
- Answer – It is not possible to do an accurate “worst case” scenario and an accurate “optimized” scenario at the same time.
- Each method should be applied based on the need and planning objective of the client.

**End of
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