



Lifestyle / Pay & Need Analysis

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- As a member of Mercer Capital's Litigation Group, she provides valuation and forensics services for family law, gift & estate planning, commercial litigation, transactions (M&A), and further matters related to privately held businesses, dissenting shareholders, intellectual property, personal goodwill, etc. With her forensics accreditation, she provides economic and financial damages studies, asset tracing, lost profits, and lifestyle analysis.
- Karolina also provides financial reporting and valuation analyses related to mergers & acquisitions, intangible assets, private equity portfolio companies, contractual agreements, and complex capital structures. She has experience in valuing a wide variety of intangible assets such as patents, customer lists, trademarks, and contracts. These engagements have been conducted for the purposes of mergers and acquisitions, buyouts, financial reporting, estate and gift taxes, allocation of purchase price, litigation support, shareholder dissent, buy-sell agreements, dissolutions, financing, and business planning.
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What We'll Cover Today

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Divorce trial 'lifestyle analysis': Ex-wife needs \$5 million a year



Richard Stephenson, founder of Cancer Treatment Centers of America, left, and his ex-wife, Alicia Stephenson, head into the McHenry County Courthouse on Oct. 17, 2016. (Stacey Wescott/Chicago Tribune)

By **Kate Thayer and Amanda Marrasso** · Contact Reporter
Chicago Tribune

“With multiple homes, a full-time private chef, vacations, entertainment, and \$746 for pet care, Alicia Stephenson needs more than \$400,000 a month to her living expense, according to testimony from a financial expert who specializes in divorces....

she completed a “lifestyle analysis” to determine that Stephenson would need \$433,991 “net” in monthly maintenance to keep a standard of living similar to what she had during her marriage...”



Roles of the Financial Professional in Family Law

Roles of the Financial Professional in Family Law





Overview, Factors to Consider, Sources for Information

Lifestyle Analysis Introduction

- A lifestyle analysis is an analysis of each party's income and expenses and is used in the divorce process to demonstrate the standard of living during the marriage and to determine the living expenses and spending habits of each spouse.
- A lifestyle analysis is typically a more in-depth analysis than the financial affidavits required in the divorce process and is prepared by a forensic accountant.
- The details in the analysis serve as verification of the net worth and income and expense statements submitted by both spouses, and can help a judge determine the equitable distribution of marital assets as well as alimony needs.

Considerations

- **Day-to-day living expenses / monthly budget during marriage**
- **Spending habits of both husband and wife**
 - Standard of Living
- **Reasonability of monthly budget after divorce**
 - Accustomed Standard of Living
- **Sources of income(s) for both husband and wife**
- **Others:**
 - Child Support
 - Alimony deductions, child tax credit, and other tax situations
 - Duration of marriage
 - Age, health and vocational ability of each spouse
 - Life expectancy for each spouse

Careful consideration must be given to these factors in determining historical lifestyle (standard of living) as well as reasonable need into the future.

Lifestyle Analysis / Pay & Need Analysis

- The Lifestyle Analysis pulls together all considerations and provides a visual of sources of income and expenses over the remaining life expectancy.
- The analysis illustrates:
 - Aggregate sources of income(s)
 - Expenses over time (assumptions can adjust expenses, for example, when a home mortgage is paid off)
 - What funds are **actually required** to maintain standard of living, otherwise, to fund expenses
 - Net Worth at a Point in Time
 - Net Worth Accumulation Over Time

Factors Considered When Determining Spousal

Support: 36-5-121 - Decree for support of spouse (Tennessee)

1. The relative earning capacity, obligations, needs, and financial resources of each party, including income from pension, profit sharing or retirement plans and all other sources;
 - Tennessee Code Ann. § 36-5-121(i). *Although each of these factors must be considered when relevant to the parties' circumstances, **“the two that are considered the most important are the disadvantaged spouse's need and the obligor spouse's ability to pay.”***

Hence arises the “Pay & Need Analysis”

Factors Continued

2. The relative education and training of each party, the ability and opportunity of each party to secure such education and training, and the necessity of a party to secure further education and training to improve such party's earnings capacity to a reasonable level; *may require a vocational expert or reliance on attorney*
3. The duration of the marriage;
4. The age and mental condition of each party;
5. The physical condition of each party, including, but not limited to, physical disability or incapacity due to a chronic debilitating disease;

Factors Continued

6. The extent to which it would be undesirable for a party to seek employment outside the home, because such party will be custodian of a minor child of the marriage;
7. The separate assets of each party, both real and personal, tangible and intangible;
8. The provisions made with regard to the marital property, as defined in § 36-4-121;
9. The standard of living of the parties established during the marriage;



Factors Continued

10. The extent to which each party has made such tangible and intangible contributions to the marriage as monetary and homemaker contributions, and tangible and intangible contributions by a party to the education, training or increased earning power of the other party;
11. The relative fault of the parties, in cases where the court, in its discretion, deems it appropriate to do so; and
12. Such other factors, including the tax consequences to each party, as are necessary to consider the equities between the parties.

Further Investigative Purposes:

The forensic accountant may utilize the Lifestyle Analysis to:

- (a) estimate living expenses based on historical spending habits in determining spousal support;
- (b) establish the “true income” of a spouse who is suspected of perpetrating fraud; and
- (c) determine any possible hidden assets, or dissipation of marital assets.



Sources of Financial Information

- Tax Returns;
- Brokerage accounts;
- Retirement, pension accounts;
- Bank, debit card, credit card statements;
- Personal Financial Statements;
- Loan applications;
- Insurance policies (cash surrender value)
- Mortgage statements;
- Trusts, wills;
- Deeds to home, vehicles, motorboats, etc;
- Annuity, stock certificates, deposit box;
- Appraisals of tangible items (artwork, collectables, etc)., among others.





Case Study

Falcon v Falcon

Falcon v Falcon: Fact Pattern

- Husband executive of successful private company
 - High income earner with compensation in form of salary and annual bonus
- Wife is a marketing manager with a full-time salary
- Accustomed “nice” standard of living
- Both parties 55 years old
- 30 year marriage
- Two adult children, both out of college and no longer dependents for tax-purposes
- Wife hired us
 - Wife & Husband affirmed comparable expenses/budget
 - Wife hired us to assist in spousal support to prove historical lifestyle and need for alimony
 - Wife also is not sure that the settlement offer will accommodate her through her retirement

Marital Balance Sheet

#	Description	As of Date	Value	Debt	Equity	Child or Separate Account	Proposed Division			Notes
							Marital	Husband	Wife	
Real Estate										
1	House - Memphis Drive	10/31/18	750,000	(100,000)	650,000		650,000	0	650,000	0/100
2	Condo - Memphis High Rise	10/31/18	500,000	(100,000)	400,000		400,000	400,000	0	100/0
							1,050,000	400,000	650,000	
Real Estate Split										
Cash and Investments										
3	Bank Checking Acct ending xxxx	10/31/18	10,000		10,000		10,000	5,000	5,000	50/50
4	Savings Checking Acct ending xxxx	10/31/18	50,000		50,000		50,000	25,000	25,000	50/50
5	Brokerage Acct ending xxx	10/31/18	250,000		250,000		250,000	125,000	125,000	50/50
							310,000	155,000	155,000	
Cash and Investments Split										
Retirement Plans										
6	Wife's 401k	10/31/18	1,200,000		1,200,000		1,200,000	0	1,200,000	0/100
7	Husband's 401k	10/31/18	1,200,000		1,200,000		1,200,000	1,200,000	0	100/0
							2,400,000	1,200,000	1,200,000	
Retirement Split										
Automobiles & Other										
8	Car- wife	10/31/18	35,000		35,000		35,000	0	35,000	0/100
9	Car- husband	10/31/18	35,000		35,000		35,000	35,000	0	100/0
10	Household Goods	10/31/18	50,000		50,000		50,000	25,000	25,000	50/50
							120,000	60,000	60,000	
Automobiles & Other Split										
Totals - Assets			4,080,000	(200,000)	3,880,000		3,880,000	1,815,000	2,065,000	
								47%	53%	
Separate Assets										
11	Wife's inherited parent's checking account	10/31/18	50,000		50,000	50,000				
12	Wife's jewelry	10/31/18	40,000		40,000	40,000				
13	Husband's gun & watch collection	10/31/18	75,000		75,000	75,000				
Liabilities - credit cards										
14	American Express ending xxxx	10/31/18		(4,500)						
15	Master Card ending xxxx	10/31/18		(3,000)						
Subtotal				(7,500)						<i>Agree to split 50/50, accustomed to paying off debt/bills each month.</i>

- Obtain/assist with monthly budget for both spouses & annualize
- Obtain retirement contribution info & anticipated retirement age
 - Corroborate with life expectancy tables the life expectancy for each gender
- Obtain/assist with proposed settlement offer on asset allocation as well as alimony
- Build a lifestyle analysis, or pay-and-need analysis, for the payee (in this example, wife) and payor (in this example, husband)
- Analyze the annual deficit or surplus based on the pay (payor) and need (payee) abilities of each spouse annually through life expectancy
- Compare net worth accumulation now and over time

Comparison of Individual Earnings

Wife's Earnings				
Year	Gross Salary	Pre-tax Deductions - 401k	Implied Gross Earnings	Gross Monthly
2013	\$75,000	\$24,000	\$51,000	\$4,250
2014	76,500	24,000	52,500	4,375
2015	78,030	24,000	54,030	4,503
2016	79,591	24,000	55,591	4,633
2017	81,182	24,000	57,182	4,765
<i>Average 2013-2017</i>	\$78,061	\$24,000	\$54,061	\$4,505
<i>Most recent (2017)</i>	\$81,182	\$24,000	\$57,182	\$4,765
Selected	\$81,182	\$24,000	\$57,182	\$4,765

Husband's Earnings				
Year	Gross Salary	Pre-tax Deductions - 401k	Implied Gross Earnings	Gross Monthly
2013	\$450,000	\$24,000	\$426,000	\$35,500
2014	500,000	24,000	476,000	39,667
2015	875,000	24,000	851,000	70,917
2016	505,000	24,000	481,000	40,083
2017	525,000	24,000	501,000	41,750
<i>Average 2013-2017</i>	\$571,000	\$24,000	\$547,000	\$45,583
<i>Most recent (2017)</i>	\$525,000	\$24,000	\$501,000	\$41,750
Selected	\$525,000	\$24,000	\$501,000	\$41,750

Source: Tax Returns Prepared by ABC CPAs

Wife's earnings as a percentage of husband's	11%	Using selected values from above
Wife's earnings as a percentage of total (wife's & husband's)	10%	**
Husbands's earnings as a percentage of total (wife's & husband's)	90%	**

Many couples file married filing jointly, but, for this exercise, it is helpful to analyze each person's historical earnings.

Sometimes average salary is appropriate, other times the most recent earnings is the more appropriate indication of earnings capacity.

Wife's Anticipated Monthly Personal Living Expenses
Notes

Automobile (paid off)		<i>Based on accustomed lifestyle during marriage and historical expenses, unless otherwise noted.</i>
Gas	200	
Maintenance on a 6-year-old car	250	
Auto Insurance	100	
Other: License/tags, wash, detail	50	
Books/magazines/Newspaper	40	
Dining out / Entertainment		
Restaurants	500	
Sports games/ concerts/ theatre	500	
Dry Cleaning	50	
Gym Membership	200	
Gifts (family members, friends)	400	
Grocery	450	
House		
Mortgage - principal & interest	1500	
Taxes & Home Insurance	1500	<i>Taxes approx. \$15,000 annually and home insurance approx. \$3,000 annually</i>
Utilities	500	
Housekeeping	200	
Repairs & Maintenance	250	
Monitored Alarm	50	
Supplies for homecare	75	
Home Phone	40	
Lawn Maintenance	100	
Pest/Termite Control	25	
Cable/Internet/Netflix/cloud storage	200	
Medical		
Copay/Out of pocket expenses/Rx	200	<i>High deductible plan</i>
Premium on Insurance	150	<i>Employee portion of insurance premium</i>
Personal		
Clothing replacement - personal	300	
Clothing replacement - professional	200	
Hair	25	
Other (salon, massage)	75	
Travel/Vacations	500	<i>Accustomed to 2-3 vacations per year</i>
Wireless phone service	75	
Total Monthly Expenses	\$8,705	<i>Using after-tax dollars</i>

For Monthly Illustration

Gross Monthly Earnings	\$4,765	<i>From Earnings analysis, after retirement contribution</i>
Gross Monthly Alimony	\$6,500	
Tax due on Earnings and Alimony	(\$2,500)	<i>Estimate, Decree filed before January 1, 2018</i>
Net Monthly Disposable Cash	\$8,765	
Implied Surplus (Deficit)	\$60	

- Expenses are on an after-tax basis. Obtain historical statements, invoices, etc. and estimate anticipated future expense.

Alimony and salary, in our analysis, is on a pre-tax, gross basis.

- Estimate taxes due on alimony & salary to calculate an implied surplus or deficit.

Wife's Need for Support Analysis

Year	Age	Sources of Income				Deductions		Taxable Income	Implied (Estimated) Federal Income Tax	Implied (Estimated) FICA Tax - Earnings only	Net Disposable Cash	Personal Living Expenses 2.0% Inflation	Annual (Deficit) or Surplus	Monthly (Deficit) or Surplus	
		Earnings Estimate & 2.0% Inflation	Alimony	Draws From Retirement	Social Security 2.0% COLA	Standard Deduction - Single	Retirement Deduction								
1	55	82,806	78,000	0	0	(12,000)	(24,500)	124,306	(24,123)	(6,335)	105,848	(104,460)	1,388	116	
2	56	84,462	78,000	0	0	(12,000)	(24,500)	125,962	(24,520)	(6,461)	106,980	(106,549)	431	36	
3	57	86,151	78,000	0	0	(12,000)	(24,500)	127,651	(24,926)	(6,591)	108,135	(108,680)	(545)	(45)	
4	58	87,874	78,000	0	0	(12,000)	(24,500)	129,374	(25,339)	(6,722)	109,313	(110,854)	(1,541)	(128)	
5	59	89,632	78,000	0	0	(12,000)	(24,500)	131,132	(25,761)	(6,857)	110,514	(113,071)	(2,557)	(213)	
6	60	91,425	78,000	0	0	(12,000)	(24,500)	132,925	(26,191)	(6,994)	111,739	(115,332)	(3,593)	(269)	
7	61	93,253	78,000	0	0	(12,000)	(24,500)	134,753	(26,630)	(7,134)	112,989	(117,639)	(4,650)	(367)	
8	62	95,118	78,000	0	0	(12,000)	(24,500)	136,618	(27,078)	(7,277)	114,264	(119,992)	(5,728)	(477)	
9	63	97,020	78,000	0	0	(12,000)	(24,500)	138,520	(27,534)	(7,422)	115,564	(122,392)	(6,828)	(569)	
10	64	98,961	78,000	0	0	(12,000)	(24,500)	140,461	(28,000)	(7,571)	116,890	(124,839)	(7,949)	(662)	
11	65	100,940	78,000	0	0	(12,000)	(24,500)	142,440	(28,475)	(7,722)	118,243	(127,336)	(9,093)	(758)	
12	66	102,959	78,000	0	0	(12,000)	(24,500)	144,459	(28,960)	(7,876)	119,623	(129,883)	(10,260)	(855)	
13	67	0	0	136,500	30,000	(12,000)	0	154,500	(31,370)	0	135,131	(130,951)	4,180	348	
14	68			139,230	30,600	(12,000)		157,830	(32,195)		137,635	(133,570)	4,065	339	
15	69			142,015	31,212	(12,000)		161,227	(33,282)		139,945	(136,241)	3,704	309	
16	70			144,855	31,836	(12,000)		164,691	(34,391)		142,300	(138,966)	3,335	278	
17	71			147,752	32,473	(12,000)		168,225	(35,521)		144,703	(141,745)	2,958	247	
18	72			150,707	33,122	(12,000)		171,829	(36,675)		147,155	(144,580)	2,575	215	
19	73			153,721	33,785	(12,000)		175,506	(37,851)		149,655	(147,472)	2,183	182	
20	74			156,796	34,461	(12,000)		179,256	(39,051)		152,205	(150,421)	1,784	149	
21	75			159,932	35,150	(12,000)		183,081	(40,276)		154,806	(153,429)	1,376	115	
22	76			163,130	35,853	(12,000)		186,983	(41,524)		157,459	(156,498)	961	80	
23	77			166,393	36,570	(12,000)		190,963	(42,798)		160,165	(159,628)	537	45	
24	78			169,721	37,301	(12,000)		195,022	(44,096)		162,925	(162,821)	105	9	
25	79			173,115	38,047	(12,000)		199,162	(45,421)		165,741	(166,077)	(336)	(28)	
26	80			176,577	38,808	(12,000)		203,386	(46,874)		168,511	(169,398)	(887)	(74)	
27	81			180,109	39,584	(12,000)		207,693	(48,382)		171,311	(172,786)	(1,475)	(123)	
28	82			183,711	40,376	(12,000)		212,087	(49,920)		174,167	(176,242)	(2,075)	(173)	
29	83			187,385	41,184	(12,000)		216,569	(51,489)		177,080	(179,767)	(2,687)	(224)	
30	84			191,133	42,007	(12,000)		221,140	(53,089)		180,052	(183,362)	(3,311)	(276)	
31	85			194,956	42,847	(12,000)		225,803	(54,721)		183,082	(187,030)	(3,947)	(329)	
32	86			198,855	43,704	(12,000)		230,559	(56,385)		186,174	(190,770)	(4,596)	(383)	
33	87			202,832	44,578	(12,000)		235,410	(58,083)		189,327	(194,586)	(5,258)	(438)	
Assumptions:		\$81,182 2.00%	\$6,500 2.00%	\$136,500 2.00%	\$30,000 2.00%		(\$24,500)		24.0% 32.0% 35.0%	6.20% 1.45%		2.00% \$8,705			
		Items/cells highlighted in blue indicate assumptions based on discussions with client and understanding of lifestyle. Assume individual retires at 67.				Estimated SSBenefit	Filing Single	FICA Social Security and Medicare		Year 13 : Reduce principal & interest payment (\$1,500), mortgage paid off					

All components of the lifestyle, collectively on an annual basis, for the remaining expected life

- 1) Sources of income (including alimony)
- 2) Deductions (for estimating taxes)
- 3) Net disposable cash (after-taxes)
- 4) Personal living expenses
- 5) The calculation of annual surplus or deficit **BASED ON ASSUMPTIONS**

The model is sensitive to any changes.

Retirement Plans					
Wife's 401k		1,200,000			
Wife's Contribution		24,500			
Balance at Divorce:		1,200,000			
Average Return %:		4.0%			
Year	Age	A Annual Return	B Contribution	C Distribution	= Balance + A + B + C Investment Balance
1	55	48,000	24,500	0	1,272,500
2	56	50,900	24,500	0	1,347,900
3	57	53,916	24,500	0	1,426,316
4	58	57,053	24,500	0	1,507,869
5	59	60,315	24,500	0	1,592,683
6	60	63,707	24,500	0	1,680,891
7	61	67,236	24,500	0	1,772,626
8	62	70,905	24,500	0	1,868,031
9	63	74,721	24,500	0	1,967,253
10	64	78,690	24,500	0	2,070,443
11	65	82,818	24,500	0	2,177,760
12	66	87,110	24,500	0	2,289,371
13	67	91,575	0	(136,500)	2,244,446
14	68	89,778	0	(139,230)	2,194,994
15	69	87,800	0	(142,015)	2,140,779
16	70	85,631	0	(144,855)	2,081,555
17	71	83,262	0	(147,752)	2,017,065
18	72	80,683	0	(150,707)	1,947,041
19	73	77,882	0	(153,721)	1,871,201
20	74	74,848	0	(156,796)	1,789,254
21	75	71,570	0	(159,932)	1,700,892
22	76	68,036	0	(163,130)	1,605,798
23	77	64,232	0	(166,393)	1,503,637
24	78	60,145	0	(169,721)	1,394,062
25	79	55,762	0	(173,115)	1,276,709
26	80	51,068	0	(176,577)	1,151,200
27	81	46,048	0	(180,109)	1,017,140
28	82	40,686	0	(183,711)	874,114
29	83	34,965	0	(187,385)	721,694
30	84	28,868	0	(191,133)	559,428
31	85	22,377	0	(194,956)	386,850
32	86	15,474	0	(198,855)	203,469
33	87	8,139	0	(202,832)	8,776

- This example assumes employer has a 401k plan.
 - Consider if there is an employer match; if so, that would increase contribution, *column B*.
- Distributions are used to fund expenses and in this example, almost entirely deplete the account.
- Consideration must be given if the plans Roth IRA, as these are only taxed on the gain.

Cash and Investments

Bank Checking Acct ending xxxx	5,000
Savings Checking Acct ending xxxx	25,000
Brokerage Acct ending xxx	125,000
	<u>155,000</u>

Balance at Divorce: **155,000**
Average Return %: 4.0%

Year	Age	A Annual Return	B Annual (Deficit) or Surplus	C Implied Capital Gain Tax 15% on Deficit Draws	= Balance + A + B + C Investment Balance
1	55	6,200	1,388	0	162,588
2	56	6,504	431	0	169,523
3	57	6,781	(545)	(82)	175,677
4	58	7,027	(1,541)	(231)	180,932
5	59	7,237	(2,557)	(384)	185,229
6	60	7,409	(3,593)	(539)	188,506
7	61	7,540	(4,850)	(697)	190,699
8	62	7,628	(5,728)	(859)	191,739
9	63	7,670	(6,828)	(1,024)	191,557
10	64	7,662	(7,949)	(1,192)	190,078
11	65	7,603	(9,093)	(1,364)	187,224
12	66	7,489	(10,260)	(1,539)	182,914
13	67	7,317	4,180	0	194,411
14	68	7,776	4,065	0	206,253
15	69	8,250	3,704	0	218,206
16	70	8,728	3,335	0	230,269
17	71	9,211	2,958	0	242,439
18	72	9,698	2,575	0	254,711
19	73	10,188	2,183	0	267,082
20	74	10,683	1,784	0	279,549
21	75	11,182	1,376	0	292,107
22	76	11,684	961	0	304,753
23	77	12,190	537	0	317,480
24	78	12,699	105	0	330,284
25	79	13,211	(336)	(50)	343,109
26	80	13,724	(887)	(133)	355,812
27	81	14,232	(1,475)	(221)	368,348
28	82	14,734	(2,075)	(311)	380,696
29	83	15,228	(2,687)	(403)	392,834
30	84	15,713	(3,311)	(497)	404,740
31	85	16,190	(3,947)	(592)	416,390
32	86	16,656	(4,596)	(689)	427,760
33	87	17,110	(5,258)	(789)	438,823

- Assess risk tolerance of the individual
- Conservative approach used in example (4% average percentage return). However, if more information is available, use an asset allocation weighted approach and use real time market yield rates.

Husband's Ability to Support Analysis

Year	Age	Sources of Income			Deductions			Taxable Income	Implied (Estimated) Federal Income Tax	Implied (Estimated) FICA Tax - Earnings only	Net Disposable Cash	Personal Living Expenses 2.0% Inflation	Annual (Deficit) or Surplus	Monthly (Deficit) or Surplus
		Earnings Estimate & 2.0% COLA	Draws From Retirement	Social Security 2.0% COLA	Standard Deduction - Single	Alimony	Retirement Deduction							
1	55	535,500	0	0	(12,000)	(78,000)	(24,500)	421,000	(123,040)	(20,545)	289,415	(104,460)	184,955	15,413
2	56	546,210	0	0	(12,000)	(78,000)	(24,500)	431,710	(126,788)	(20,797)	296,125	(106,549)	189,576	15,798
3	57	557,134	0	0	(12,000)	(78,000)	(24,500)	442,634	(130,611)	(21,053)	302,969	(108,680)	194,289	16,191
4	58	568,277	0	0	(12,000)	(78,000)	(24,500)	453,777	(134,511)	(21,315)	309,950	(110,854)	199,096	16,591
5	59	579,642	0	0	(12,000)	(78,000)	(24,500)	465,142	(138,489)	(21,582)	317,071	(113,071)	204,000	17,000
6	60	591,235	0	0	(12,000)	(78,000)	(24,500)	476,735	(142,547)	(21,855)	324,334	(115,332)	209,001	17,417
7	61	603,060	0	0	(12,000)	(78,000)	(24,500)	488,560	(146,685)	(22,133)	331,742	(117,639)	214,103	17,842
8	62	615,121	0	0	(12,000)	(78,000)	(24,500)	500,621	(150,919)	(22,416)	339,286	(119,992)	219,294	18,274
9	63	627,424	0	0	(12,000)	(78,000)	(24,500)	512,924	(155,471)	(22,705)	346,747	(122,392)	224,356	18,696
10	64	639,972	0	0	(12,000)	(78,000)	(24,500)	525,472	(160,114)	(23,000)	354,358	(124,839)	229,518	19,127
11	65	652,772	0	0	(12,000)	(78,000)	(24,500)	538,272	(164,850)	(23,301)	362,121	(127,336)	234,784	19,565
12	66	665,827	0	0	(12,000)	(78,000)	(24,500)	551,327	(169,680)	(23,608)	370,039	(129,883)	240,156	20,013
13	67	0	140,000	32,000	(12,000)	0	0	180,000	(32,890)	0	139,111	(130,951)	8,160	680
14	68	142,800	32,640	32,640	(12,000)			163,440	(33,990)		141,450	(133,570)	7,880	657
15	69	145,656	33,293	33,293	(12,000)			166,949	(35,113)		143,836	(136,241)	7,595	633
16	70	148,569	33,959	33,959	(12,000)			170,528	(36,258)		146,269	(138,966)	7,304	609
17	71	151,541	34,638	34,638	(12,000)			174,178	(37,427)		148,752	(141,745)	7,007	584
18	72	154,571	35,331	35,331	(12,000)			177,902	(38,618)		151,284	(144,580)	6,704	559
19	73	157,663	36,037	36,037	(12,000)			181,700	(39,833)		153,866	(147,472)	6,395	533
20	74	160,816	36,758	36,758	(12,000)			185,574	(41,073)		156,501	(150,421)	6,080	507
21	75	164,032	37,493	37,493	(12,000)			189,525	(42,338)		159,188	(153,429)	5,758	480
22	76	167,313	38,243	38,243	(12,000)			193,556	(43,627)		161,929	(156,498)	5,431	453
23	77	170,659	39,008	39,008	(12,000)			197,667	(44,943)		164,724	(159,628)	5,096	425
24	78	174,072	39,788	39,788	(12,000)			201,860	(46,341)		167,520	(162,821)	4,699	392
25	79	177,554	40,584	40,584	(12,000)			206,138	(47,838)		170,300	(166,077)	4,223	352
26	80	181,105	41,395	41,395	(12,000)			210,500	(49,365)		173,136	(169,398)	3,737	311
27	81	184,727	42,223	42,223	(12,000)			214,950	(50,922)		176,028	(172,786)	3,242	270
28	82	188,422	43,068	43,068	(12,000)			219,489	(52,511)		178,979	(176,242)	2,736	228
29	83	192,190	43,929	43,929	(12,000)			224,119	(54,131)		181,988	(179,767)	2,221	185
30	84	196,034	44,808	44,808	(12,000)			228,842	(55,784)		185,057	(183,362)	1,695	141
Assumptions:		\$525,000 2.00%	\$140,000 2.00%	\$32,000 2.00%		(\$6,500)	(\$24,500)		35.0%	6.20%		2.00%		
									37.0%	1.45%		\$8,705		
									32.0%	0.90%				
Items/cells highlighted in blue indicate assumptions based on discussions with client and understanding of lifestyle. Assume individual retires at 67.				Estimated SSBenefit	Filing Single	FICA Social Security and Medicare (Add .9% for wages >\$200k)				Year 13 : Reduce principal & interest payment (\$1,500), mortgage paid off				

All components of the lifestyle, collectively, on an annual basis, for the remaining expected life

- 1) Sources of income
- 2) Deductions including alimony (for estimating taxes)
- 3) Net disposable cash (after-taxes)
- 4) Personal living expenses
- 5) The calculation of annual surplus or deficit BASED ON ASSUMPTIONS

The model is sensitive to any changes.

Retirement Plans						
Husband's 401k		1,200,000				
Husband's Contribution		24,500				
Balance at Divorce:		1,200,000				
Average Return %:		4.0%				
Year	Age	A Annual Return	B Contribution	C Distribution	= Balance + A + B + C Investment Balance	
1	55	48,000	24,500	0	1,272,500	
2	56	50,900	24,500	0	1,347,900	
3	57	53,916	24,500	0	1,426,316	
4	58	57,053	24,500	0	1,507,869	
5	59	60,315	24,500	0	1,592,683	
6	60	63,707	24,500	0	1,680,891	
7	61	67,236	24,500	0	1,772,626	
8	62	70,905	24,500	0	1,868,031	
9	63	74,721	24,500	0	1,967,253	
10	64	78,690	24,500	0	2,070,443	
11	65	82,818	24,500	0	2,177,760	
12	66	87,110	24,500	0	2,289,371	
13	67	91,575	0	(140,000)	2,240,946	
14	68	89,638	0	(142,800)	2,187,784	
15	69	87,511	0	(145,656)	2,129,639	
16	70	85,186	0	(148,569)	2,066,255	
17	71	82,650	0	(151,541)	1,997,365	
18	72	79,895	0	(154,571)	1,922,688	
19	73	76,908	0	(157,663)	1,841,933	
20	74	73,677	0	(160,816)	1,754,794	
21	75	70,192	0	(164,032)	1,660,954	
22	76	66,438	0	(167,313)	1,560,079	
23	77	62,403	0	(170,659)	1,451,823	
24	78	58,073	0	(174,072)	1,335,824	
25	79	53,433	0	(177,554)	1,211,703	
26	80	48,468	0	(181,105)	1,079,066	
27	81	43,163	0	(184,727)	937,501	
28	82	37,500	0	(188,422)	786,580	
29	83	31,463	0	(192,190)	625,853	
30	84	25,034	0	(196,034)	454,853	

- Remaining expected life is shorter, per the Social Security Administration, for male.
- As such, distributions could exceed our estimate to deplete the balance, however, the model estimates distributions based on what is need to cover expenses, and balance remains at the end of the expected life period.

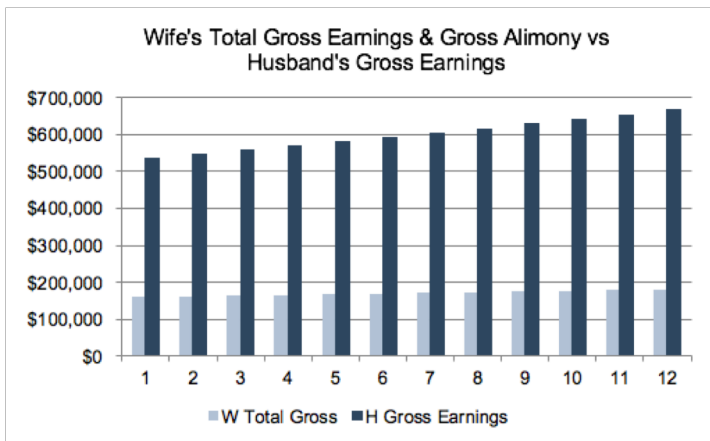
Cash and Investments

Bank Checking Acct ending xxxx	5,000
Savings Checking Acct ending xxxx	25,000
Brokerage Acct ending xxx	125,000
	<u>155,000</u>

Balance at Divorce: **155,000**
 Average Return %: **4.0%**

Year	Age	A Annual Return	B Annual (Deficit) or Surplus	C Implied Capital Gain Tax 15% on Deficit Draws	= Balance + A + B + C Investment Balance
1	55	6,200	184,955	0	346,155
2	56	13,846	189,576	0	549,576
3	57	21,983	194,289	0	765,850
4	58	30,634	199,096	0	995,580
5	59	39,823	204,000	0	1,239,403
6	60	49,576	209,001	0	1,497,981
7	61	59,919	214,103	0	1,772,003
8	62	70,880	219,294	0	2,062,177
9	63	82,487	224,356	0	2,369,020
10	64	94,761	229,518	0	2,693,299
11	65	107,732	234,784	0	3,035,815
12	66	121,433	240,156	0	3,397,404
13	67	135,896	8,160	0	3,541,460
14	68	141,658	7,880	0	3,690,998
15	69	147,640	7,595	0	3,846,233
16	70	153,849	7,304	0	4,007,386
17	71	160,295	7,007	0	4,174,688
18	72	166,988	6,704	0	4,348,379
19	73	173,935	6,395	0	4,528,709
20	74	181,148	6,080	0	4,715,938
21	75	188,638	5,758	0	4,910,334
22	76	196,413	5,431	0	5,112,177
23	77	204,487	5,096	0	5,321,761
24	78	212,870	4,699	0	5,539,330
25	79	221,573	4,223	0	5,765,126
26	80	230,605	3,737	0	5,999,469
27	81	239,979	3,242	0	6,242,689
28	82	249,708	2,736	0	6,495,133
29	83	259,805	2,221	0	6,757,159
30	84	270,286	1,695	0	7,029,141

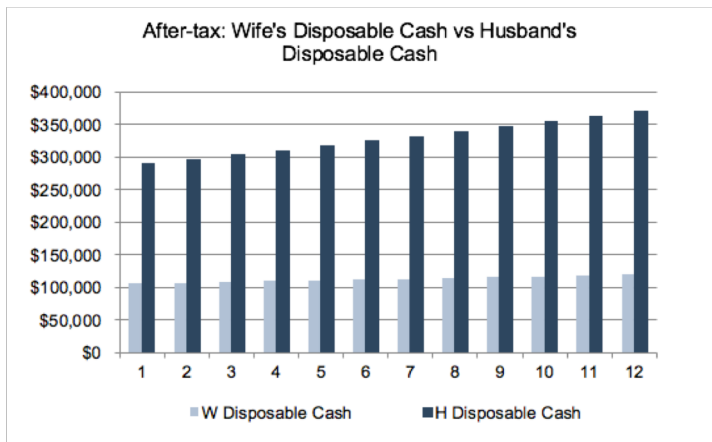
- Assess risk tolerance of the individual.
- In theory, the higher the earnings, the more risky. In this case, Husband earns exponentially more and could take on more risk, and more average returns.
 - To be conservative AND consistent, % returns is set equal for both parties.



<i>Pre-Tax Measures</i>						
Years Beyond Divorce	W Gross Earnings	W Gross Alimony	W Total Gross	H Gross Earnings	% W Gross Alimony of H Gross Earnings	% W Total of H Gross Earnings
1	\$82,806	\$78,000	\$160,806	\$535,500	15%	30%
2	84,462	78,000	162,462	546,210	14%	30%
3	86,151	78,000	164,151	557,134	14%	29%
4	87,874	78,000	165,874	568,277	14%	29%
5	89,632	78,000	167,632	579,642	13%	29%
6	91,425	78,000	169,425	591,235	13%	29%
7	93,253	78,000	171,253	603,060	13%	28%
8	95,118	78,000	173,118	615,121	13%	28%
9	97,020	78,000	175,020	627,424	12%	28%
10	98,961	78,000	176,961	639,972	12%	28%
11	100,940	78,000	178,940	652,772	12%	27%
12	102,959	78,000	180,959	665,827	12%	27%

These analyses allow us to review, in relative terms, the ability to pay and the need of each spouse and to illustrate the equitable or non-equitable distribution of gross earnings.

This allows us to compare on relative terms not just dollar amounts.



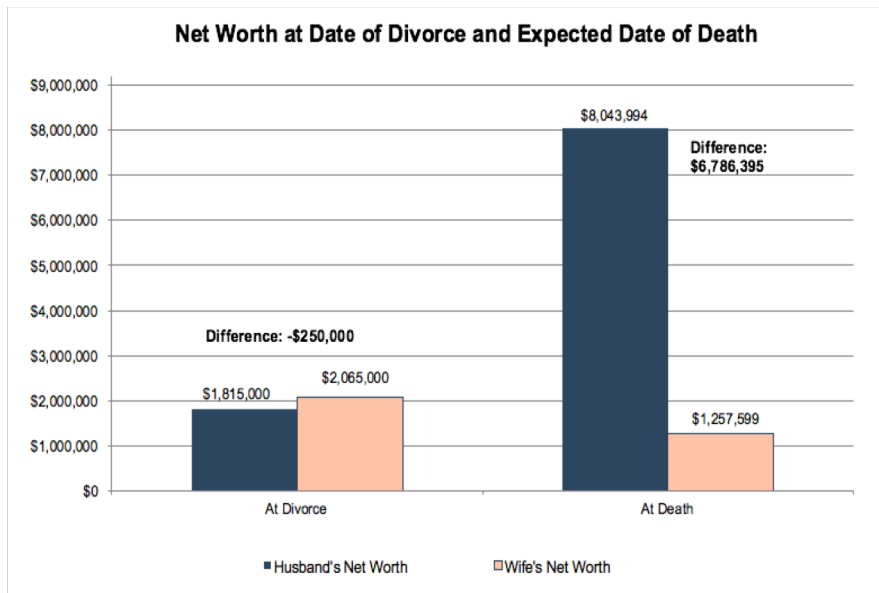
Years Beyond Divorce	After-Tax Measures, Before Expenses		
	W Disposable Cash	H Disposable Cash	% W Gross Alimony of H Gross
1	\$105,848	\$289,415	37%
2	106,980	296,125	36%
3	108,135	302,969	36%
4	109,313	309,950	35%
5	110,514	317,071	35%
6	111,739	324,334	34%
7	112,989	331,742	34%
8	114,264	339,286	34%
9	115,564	346,747	33%
10	116,890	354,358	33%
11	118,243	362,121	33%
12	119,623	370,039	32%

These analyses allow us to review, in relative terms, the ability to pay and the need of each spouse and to illustrate the equitable or non-equitable distribution of disposable cash.

This allows us to compare on relative terms not just dollar amounts.

Net Worth at Date of Divorce and Expected Date of Death

(excludes separate assets on marital balance sheet)



Net Worth Accumulation

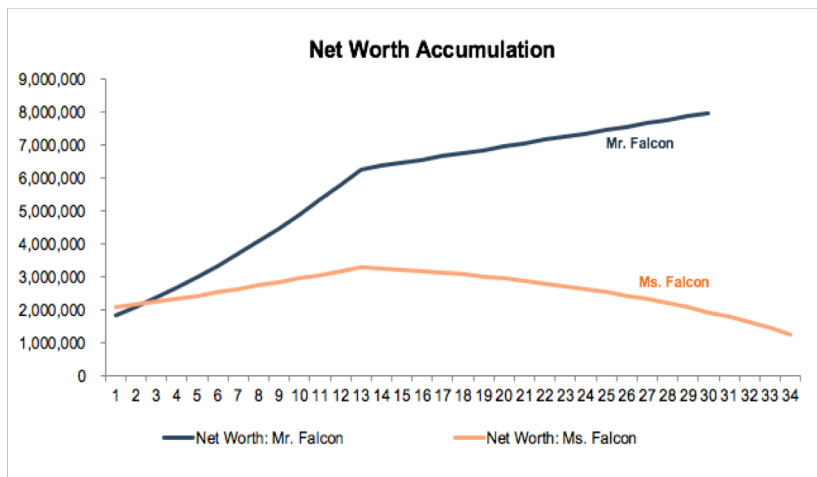
Now vs Estimated Life Expectancy Period

The net worth accumulation analysis illustrates the differences of the:

- Division of net worth at date of divorce, and
- Division of net worth at date of death.
- How net worth accumulates over expected remaining life.

Net Worth Accumulation

(excludes separate assets on marital balance sheet)



Net Worth Accumulation

Now vs Estimated Life Expectancy Period

The net worth accumulation analysis illustrates the differences of the:

- Division of net worth at date of divorce, and
- Division of net worth at date of death.
- How net worth accumulates over expected remaining life.

No Case is Just Like the Previous

- Earnings capacity –
 - Actual earnings or need for vocational expert?
- Various retirement plans (qualified, non-qualified, Roth vs Traditional, pensions)
- Child support, child tax credit, who claims the dependent children
- Alimony requested by client & attorney
 - Lump Sum or Equal future payments?
- Annual return on investments?

No Case is Just Like the Previous

- Real estate - capital gains
 - Multiple homes
 - Capital gains, timing and who claims?
- Business ownership
 - Personal Goodwill?
 - Active/Passive?
- Balancing Payment/Equalization payment to balance the marital division of assets
- Separate & Inherited assets
 - Retirement plans, homes, cash/investment accounts
 - “Source of income” for pay ability and need considerations?

Additional Potential Complexities

- Deferred compensation:
 - Restricted stock, stock options
 - % vested and % non-vested at time of marriage
 - Election 83(b)
 - Tax equalization bonus
 - Short-time incentive plans (annual bonus)
 - Long-term incentive plans
- Defined contribution and defined benefit retirement plans
 - Qualified and non-qualified
 - IRS pension limits for qualified contributions



Questions?



Thank you