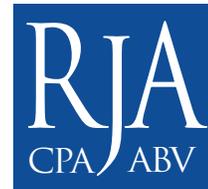




Forensic Accounting Today

Newsletter of Ron J. Anfuso, CPA/ABV, An Accountancy Corp.



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Issue 38

Serving all of California

Ron's Corner

In issue 37 of *Forensic Accounting Today*, we introduced Evan Miller, CFP®/CDFA® and his associate Kathy Costas, CDFA®, our strategic partners, who focus their financial planning efforts on those who are currently engaged in or have recently completed the marriage dissolution process. The case story we unveil here helps visualize some of the key benefits we provide through our association with Evan and Kathy. As this presentation illustrates, client consultations with Evan can have a profound positive affect on the client's decision making regarding community property division options. Our experience working together has taught us these services usually facilitate some of the attorney's tasks, and improve client satisfaction. Please note that the names of the parties and some of the numbers presented have been changed out of respect for the client's privacy. However, the decision making by the client and how it was arrived at are in accordance with the facts of the case.

Should you have questions concerning this case or our innovative financial planning services, you are welcome to contact Evan or me at our office.

Ron

To Keep or Sell the Family Home: How Financial Projections Facilitate the Choice

Background

During the divorce process of Fred and Vivian Andersen, Ron Anfuso advised Vivian's attorney it would be in her best interest to receive counseling from Evan Miller, a Certified Financial Planner® (CFP), who is also a Certified Divorce Financial Analyst® (CDFA®). Evan and his associate Kathy Costas, CDFA®, specialize in helping coordinate the financial affairs of people who are going through or have completed a divorce. They help these individuals gain control of their financial lives by guiding them through a sophisticated wealth-management consultative process.

Vivian's attorney agreed to chat with Evan Miller. As a result of their discussion, Vivian's attorney recommended she receive counseling from Evan.

For more than 20 years, Vivian has worked as a computer analyst within the financial services industry. At the time of the divorce, her annual salary

was \$150,000. Fred and Vivian have two children, a 16-year-old son and a daughter who is nine. They have owned a home for nearly 20 years in the West Los Angeles area valued at \$1.5 million. Her son is a junior in high school with plans to attend college in the greater Los Angeles area.

Fred had little interest in keeping the house. Vivian, however, was emotionally attached to the family home and believed it was in the best interest of their children to assume full ownership. She thought her best option would be to keep the home at least until her daughter would be ready for college. However, she was uncertain whether this would be financially feasible and was troubled about making the decision to pursue gaining full possession. This is why Vivian's attorney and Ron agreed that receiving counseling from Evan would be helpful. Initially, Vivian was hesitant. However, when Ron and her attorney described the benefits, she reluctantly agreed.

The Process

Evan began by gathering and analyzing Vivian's financial information. He and Kathy use a financial projection software program, which includes a financial planning component they customized for divorce cases. This software enabled them to provide Vivian a comprehensive wealth-management perspective that allowed her to visualize alternative scenarios side-by-side. Although Evan and Kathy could provide multiple scenarios, based on their evaluation of Vivian's financial situation and Evan's discussions with Vivian, Evan and Kathy decided it was best to simplify the process by presenting two scenarios; **Base Facts**, which was grounded on Vivian keeping the family residence, and **Downsize Home**, which would entail Vivian and Fred selling the home and Vivian purchasing a smaller property.

The report Evan and Kathy prepared provided a summary of the two potential strategies.

Continued on page 2

General Background and Assumptions

Vivian's age: 52
 Vivian's annual income: \$150,000
 Age Vivian plans to retire: 65
 Original home loan: \$450,000
 Mortgage balance (7/1/2016) \$350,000
 Monthly mortgage payments: \$1,900
 Projected educational expense for their children: \$70,000
 Vivian's projected life expectancy: 90

Vivian's net worth during the divorce process was calculated as follows:

Assets

Cash equivalent: \$100,000
 Taxable investments: \$1,350,000
 Qualified retirement: \$1,000,000
 Life insurance: \$50,000
 Real estate: \$1,500,000

Liabilities

Mortgage: \$350,000

Other income (proposed)

Child support (annual): \$25,000
 Spousal support (annual): \$20,000

Base Facts Scenario

Vivian's current living expenses are \$144,000. Her post-retirement annual expenses were projected to be \$140,000. If she kept the house, the most she would be in a position to afford spending annually before retirement would be \$114,000.

Her assets at retirement were projected at \$3,950,953. However, her resources were anticipated to be depleted by age 84. When turning 90, her assets would be estimated to fall to a negative \$2,677,510. Adding to this dilemma, if she sold the home several years from now, she would lose her exemption of \$250,000 on capital gains. Passing on this exemption would translate to a loss of \$50,000 to \$75,000.

Downsize Home Scenario

Under this scenario, Vivian would sell the current home and, thus, be eligible for the capital gains exemption. She would purchase a new home for about \$800,000 with a mortgage of \$400,000. Should she desire, she could safely

Cash Flow

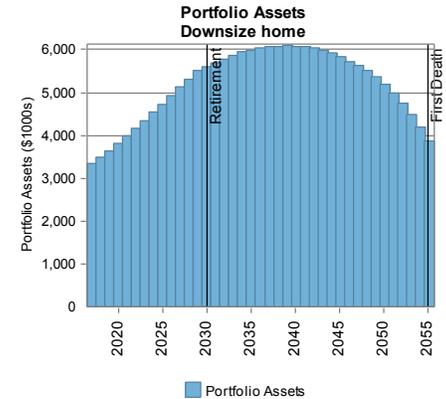
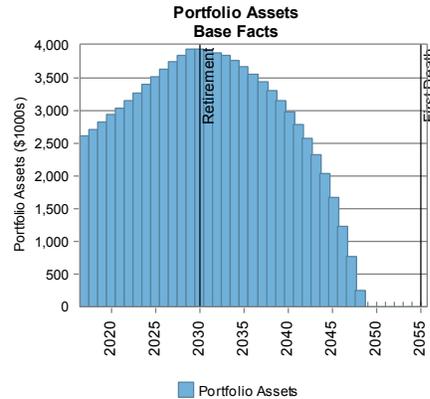
Base Facts vs. Downsize home (All Years)

Prepared for Client Divorce

The Cash Flow report illustrates your income, savings, expenses, and resulting net cash flow on an annual basis.

Based upon the levels of income and spending in the *Base Facts*, you will deplete your portfolio assets in **2049** (age **84**).

Based upon the levels of income and spending in the *Downsize home*, your portfolio assets will last through at least **2055** (age **90**).



RELEVANT FACTS

Client's Retirement: 2030 (65)
 First Death (Client): 2055 (90)

LIVING EXPENSES

Current: \$144,000
 Retirement: \$140,000
 Indexed at: 3.76%
 Inflation Rate: 3.76%

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increase her annual living expenses to \$171,000. At retirement, her resources would be \$4,823,794 and, at age 90, would still possess \$38,149 in assets. Of course, if she maintained her expenses at \$144,000, her assets would be considerably more.

Vivian's Decision

Based on the numbers and her consultations with Evan and Ron, Vivian confidently decided it would be better to sell the family home and

downsize. This enabled her attorney to present a proposed settlement to Fred that he and his attorney willingly agreed to. The result was an amicable divorce.

Vivian was thrilled with the outcome, as well as with Evan's help and the assistance she received from Ron and, especially, her attorney. Furthermore, she enthusiastically expressed a desire to refer others to her attorney. She now looks forward to a new life with a renewed sense of confidence and security.

Need a Financial Expert to Speak to Your Study Group or Bar Event?



Ron J. Anfuso can address any Forensic Accounting topic, including Moore/Marsden; marital standard of living and support needs analysis; financial specialists and Collaborative Law; gross cash flow available for support; DissoMaster™; divorce tax issues; divorce—what to expect; and business valuation.

To discuss your group's needs, call Ron today!