PROFESSIONAL FINANCIAL

Consultative Wealth Management

CLARITY. COMMITMENT. CONFIDENCE.

Principles for an Informed Retirement

Paul Byron Hill, CFP®
President | Top Wealth Manager
Professional Financial Strategies, Inc.
Powder Mill Office Park
1159 Pittsford-Victor Road, Suite 120
P. O. Box 999
Pittsford, NY 14534
(585) 218-9080
www.professionalfinancial.com

Seven Principles for an Informed Retirement

- ❑ Create a retirement plan that fits your true needs and goals
- ❑ Seriously save for income needs spanning a long life time
- ❑ Make informed decisions about when to take Social Security
- ❑ Make allowance for rising health care costs during retirement
- ❑ Let markets and time work for you when saving and investing
- ❑ Use tax leverage and enhance returns with tax-qualified investing
- ❑ Have a sensible lifestyle and stay disciplined spending

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Retirement Savings Checkpoints

Current Age	$30,000	$50,000	$75,000	$100,000	$150,000	$200,000	$250,000	$300,000
	Checkpoint (x current household income)							
30	-	0.4	1.1	1.3	1.8	2.1	2.3	2.4
35	0.3	0.8	1.6	1.9	2.4	2.8	3.1	3.2
40	0.6	1.2	2.2	2.6	3.2	3.7	4.1	4.2
45	1.0	1.8	3.0	3.4	4.2	4.8	5.3	5.5
50	1.5	2.5	3.9	4.5	5.4	6.2	6.7	7.0
55	2.1	3.3	5.1	5.7	6.9	7.9	8.5	8.8
60	2.9	4.3	6.5	7.3	8.8	9.9	10.7	11.1
65	3.9	5.6	8.4	9.4	11.3	12.7	13.7	14.2

MODEL ASSUMPTIONS

Pre-retirement investment return: **6.5%**

Post-retirement investment return: **5.0%**

Retirement age: **65**

Years in retirement: **30**

Inflation rate: **2.25%**

Confidence level represented: **80%**

Assumed annual contribution rate: **5%**

How to use:

- Go to the intersection of your current age and your closest household income.
- Multiply your household income by the checkpoint shown to get the total amount your household should have invested today, assuming you continue to save 5% going forward.
- Example: For a 40-year-old with a household income of $100,000: $100,000 x 2.6= $260,000.

This chart is for informational purposes only. The model underlying this chart is based on long-term capital market assumptions for global asset allocations ranging from 60% equity in the pre-retirement period to 40% equity in the post-retirement period. Returns are derived from conventional indexes over the 1996-2015 historical period based on global model portfolios from FinaMetrica Pty Limited corresponding with their investor risk preference methodology (ANZCUS version with REITs). Performance data for models represents past performance from indexes. Indexes are not available for direct investment. Return histories are developed through the retroactive application of an underlying asset allocation index strategy. Past performance is no guarantee of future results. No representation is made that results associated with a particular asset class or asset allocation strategy will be obtained. Allocations, assumptions and expected returns are illustrative only are not promises or even estimates of actual returns a portfolio may achieve.

Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2011-2014); Social Security benefits using modified scaled earnings in 2016 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums; and 2016 OASDI and FICA taxes. Households earning $30,000 will need to replace at least 16% of their pre-retirement income; $50,000 23%; $75,000 34%; $100,000 38%; $150,000 45%; $200,000 51%; $250,000 55%; $300,000 57%. Income replacement needs may be lower for households in which both spouses are working and the second spouse's individual benefits are greater than their spousal benefit. Single household income replacement needs may vary as spending is typically less than a two-spouse household; however, loss of the Social Security spousal benefit may offset a spending reduction. Consult a Certified Financial Planner™ for professional advice regarding your personal situation, needs and goals.

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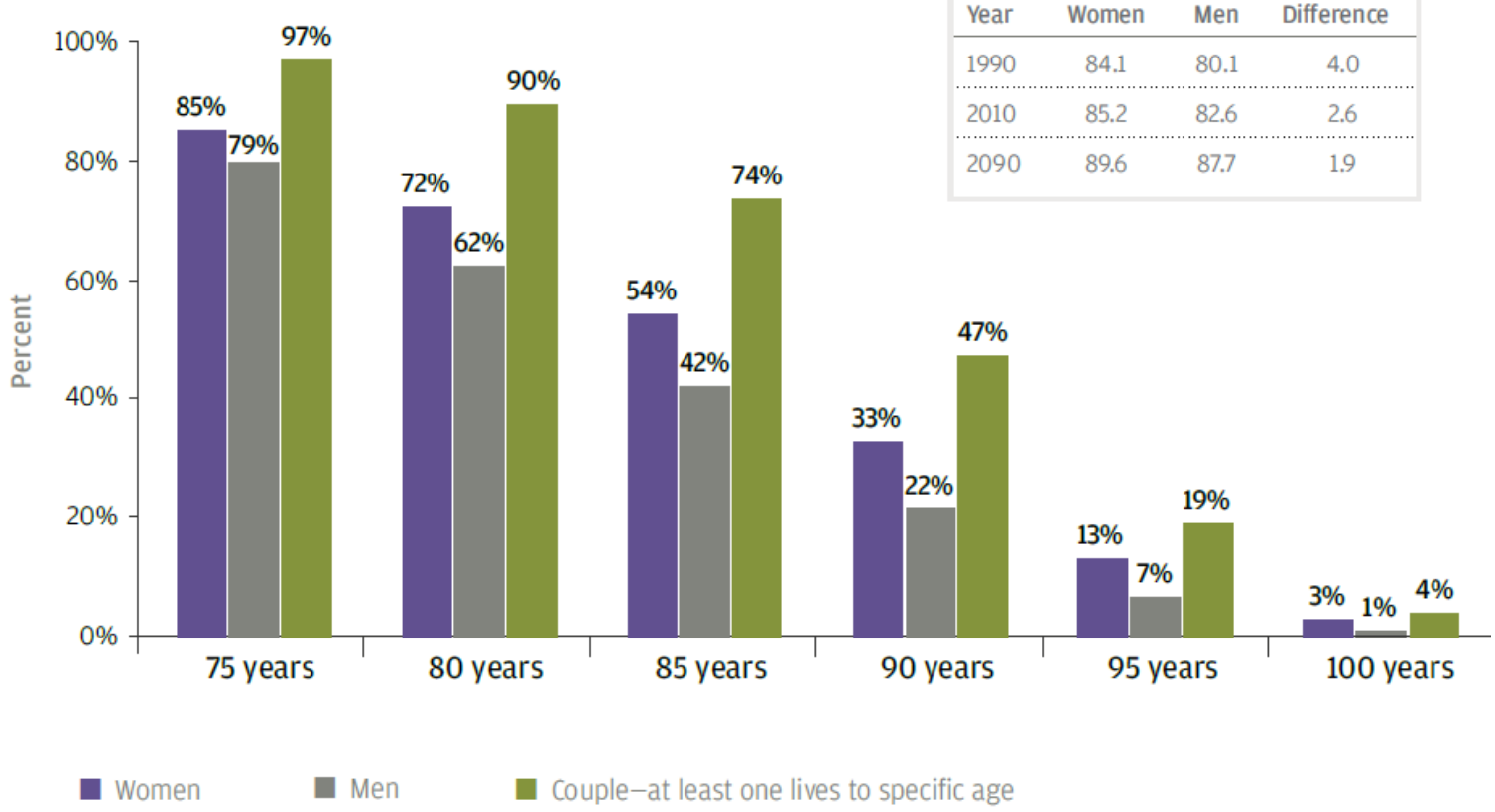
Life Expectancy Probabilities

If you're 65 today, the probability of living to a specific age or beyond



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.1	80.1	4.0
2010	85.2	82.6	2.6
2090	89.6	87.7	1.9

COUNT ON LONGEVITY

Average life expectancy continues to increase and is a mid-point not an end-point. Plan on the probability of living much longer—perhaps 30 plus years in retirement—and invest a portion of your portfolio for growth to maintain your purchasing power over time.

Chart: Social Security Administration, Period Life Table, 2011 (published in 2015), J.P. Morgan Asset Management.

Table: Social Security Administration 2015 OASDI Trustees Report.

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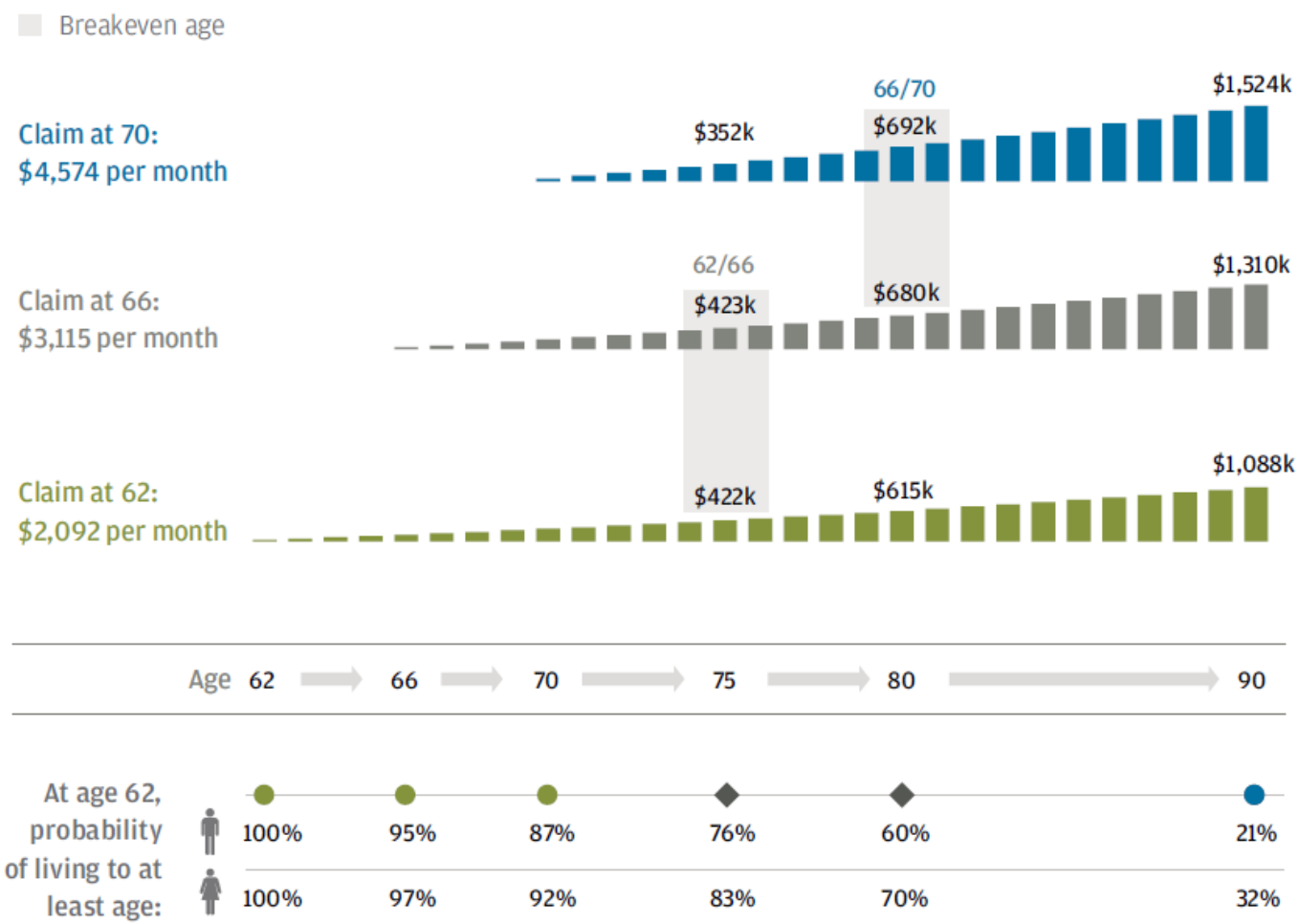
Maximizing Social Security Benefits

Cumulative benefit by claim age



PLANNING OPPORTUNITY

Delaying benefits means increased Social Security income later in life, but your portfolio may need to bridge the gap and provide income until delayed benefits are received.

Source: Social Security Administration, J.P. Morgan.

Assumes maximum benefits are received for individuals born in 1954 and turning 62 and 1 month, 66 and 70 and assumes the benefit will increase each year based on the Social Security Administration 2015 Trustee's Report "intermediate" estimates (starting with a benefit increase of 3.1% in 2017 and 2.7% thereafter). Monthly amounts without the cost of living adjustments (not shown on the chart) are: $2,092 at age 62; $2,788 at age 66; and $3,680 at age 70. Breakeven age for choosing between claiming at 62 and 70 is age 78. Life expectancy per Social Security Administration and J.P. Morgan analysis.

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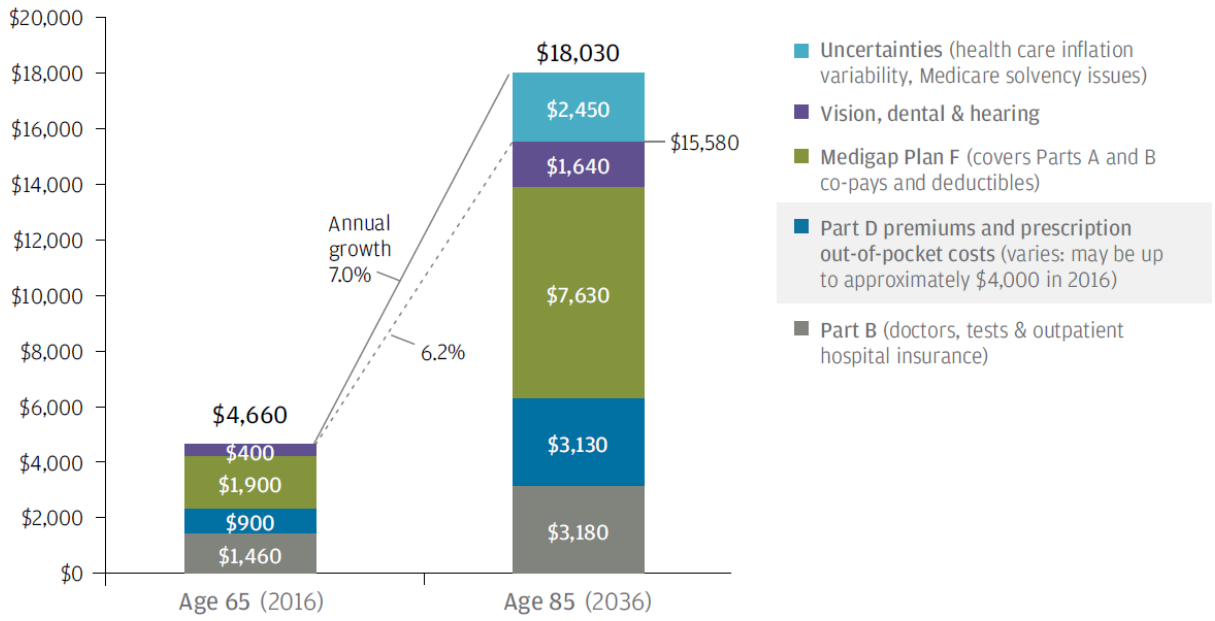
Rising Annual Health Care Costs in Retirement (Traditional Medicare)

Estimated median health care costs per person



A GROWING CONCERN

Given the variability of health care costs, it may be prudent to assume an inflation rate of 7.0%, which means that you may need growth as well as current income from your portfolio in retirement.

2016 additional premium per person for Modified Adjusted Gross Incomes (MAGI) of:

FILING SINGLE	MARRIED FILING JOINTLY	ADDITIONAL PREMIUM	TOTAL MEDIAN COSTS
> $85,000 - $107,000	> $170,000 - $214,000	$737	$5,397
> 107,000 - $160,000	> $214,000 - $320,000	$1,855	$6,515
> $160,000 - $214,000	> $320,000 - $428,000	$2,972	$7,632
> $214,000	> $428,000	$4,091	$8,751

Notes: In most states, older individuals have higher Medigap premiums. Exceptions: AR, CT, MA, ME, MN, NY, VT and WA have the same Medigap premiums for all ages. Most Medigap policies in AZ, FL, ID and MO will have the same premium for all those who first purchased Medigap at the same age of first purchase. Analysis includes Medigap Plan F (the most comprehensive plan). Parts B and D premiums are calculated from federal tax returns 2 years prior; individuals may file for an exception if they reduce or stop work. Age 85 estimated total median cost in 2016 is $7,490 (includes more prescription expense and higher Medigap premiums based on age). Modified Adjusted Gross Income (MAGI) is calculated by taking Adjusted Gross Income (AGI) and adding back certain deductions such as foreign earned income, tax-exempt interest, taxable IRA contributions and Social Security payments.

Source: Employee Benefit Research Institute (EBRI) data as of December 31, 2015; SelectQuote data as of December 31, 2015; J.P. Morgan analysis.

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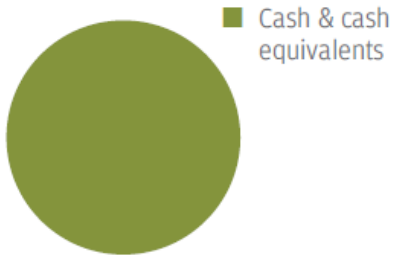
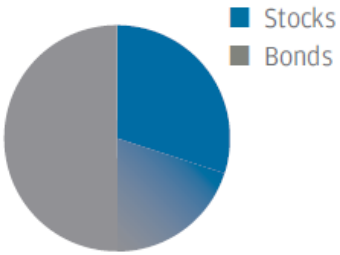
Goals-Based Wealth Management

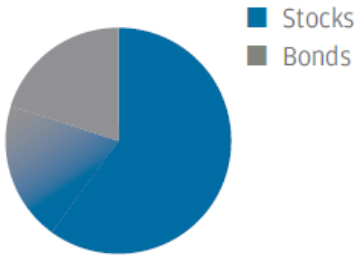
Short-term needs
3-6 months, e.g. emergencies



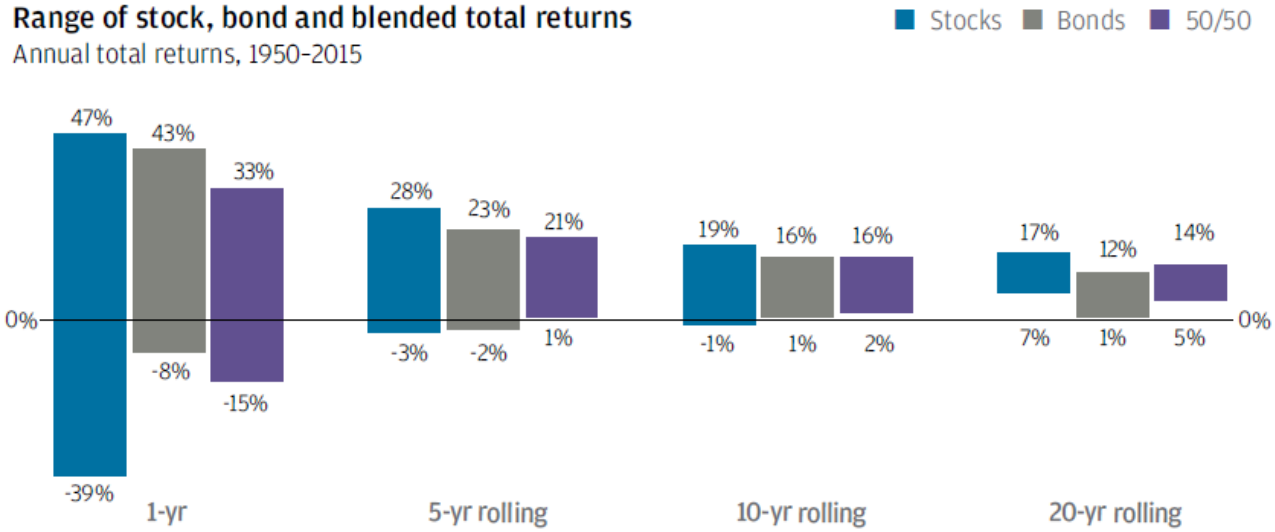
Medium-term goals
5-10 years, e.g. college, home



Long-term goals
15+ years, e.g. retirement



Range of stock, bond and blended total returns
Annual total returns, 1950-2015



DIVIDE AND CONQUER

Aligning your investment strategy by goal can help you take different levels of risk based on varying time horizons and make sure you are saving enough to accomplish all of your goals—not just the ones that occur first.

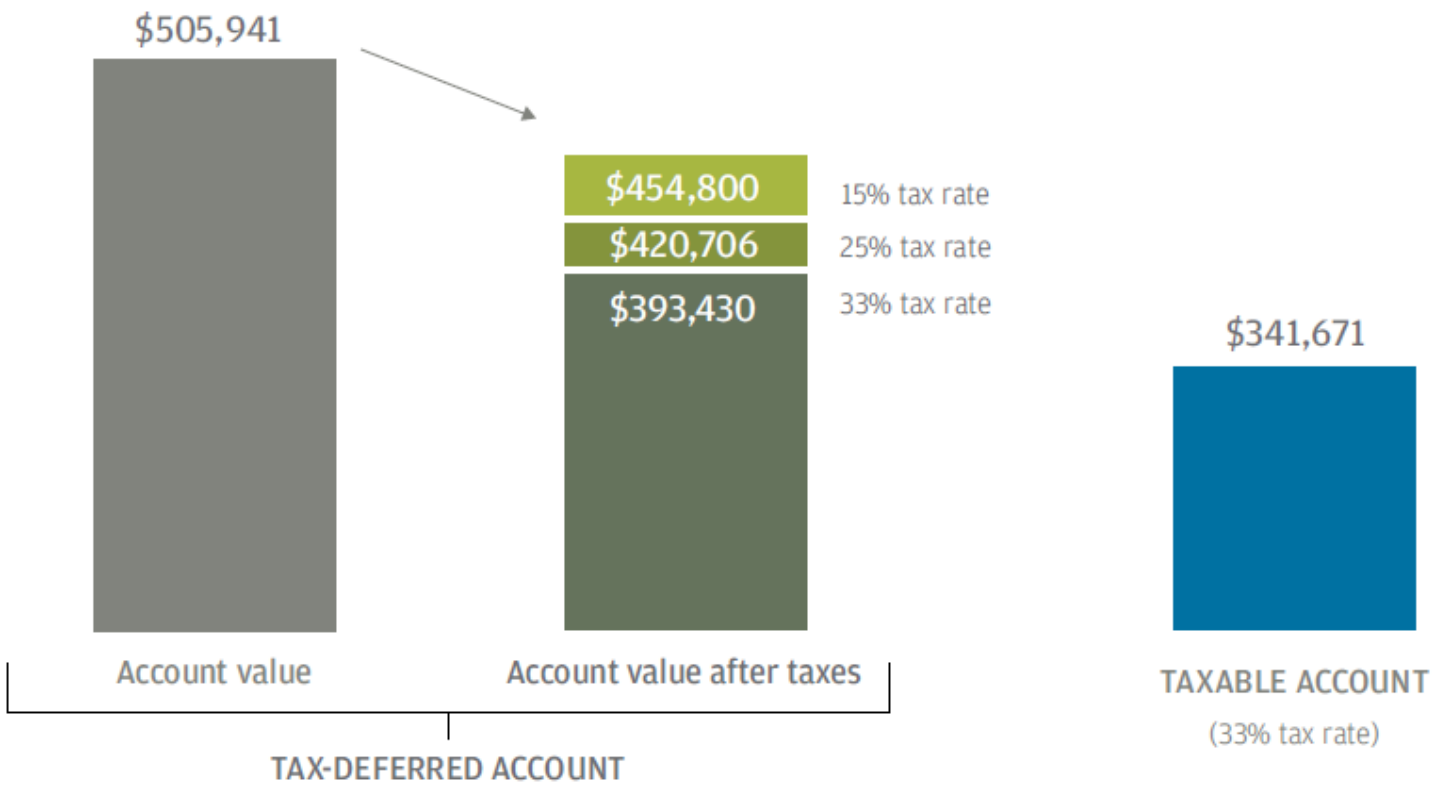
Source (top chart): J.P. Morgan Asset Management.

Source (bottom chart): Barclays Capital, FactSet, Federal Reserve, Robert Shiller, Stategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2015. Stocks represent the S&P 500 and Bonds represent Stategas/Ibbotson for periods from 1950 to 1980 and Barclays Aggregate after index inception in 1980.

Note: Portfolio allocations are hypothetical and are for illustrative purposes only. They were created to illustrate different risk/return profiles and are not meant to represent actual asset allocation.

The Power of Tax-deferred Compounding

Taxable vs. tax-deferred investing over a 30-year timeframe



ASSET LOCATION

Tax-advantaged accounts can shelter income-producing investments from current income taxation and result in greater long-term growth than taxable accounts.

Source: J.P. Morgan Asset Management. Assumes $5,500 after-tax contributions at the beginning of each year for 30 years and 6.5% annual investment return that is assumed to be subject to ordinary income taxes (capital gains and qualified dividends are not considered in this analysis). Tax-deferred account balance is taken as lump sum and taxed at the 15%, 25% and 33% federal tax rate, respectively, at time of withdrawal. Taxable account contributions are after tax and assume a 33% federal tax rate during accumulation. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results..

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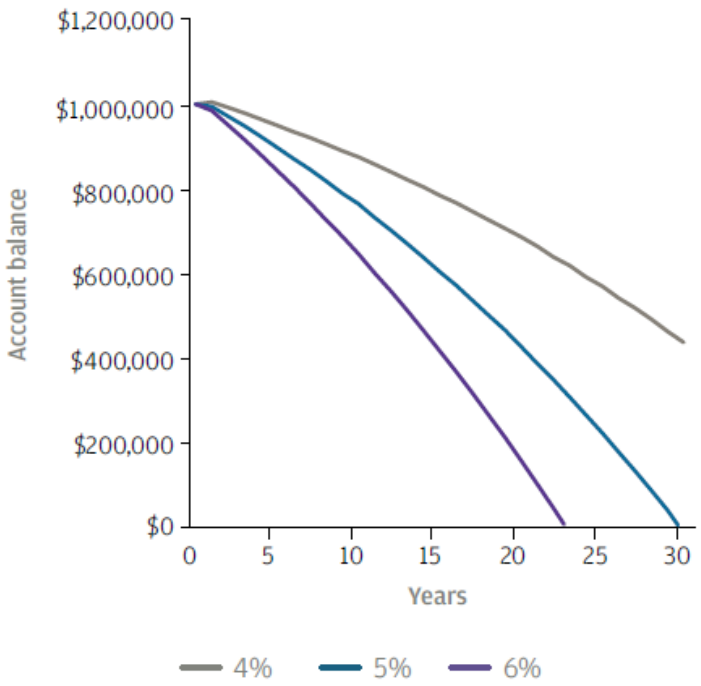
Effects of Withdrawal Rates and Portfolio Allocations

Years of sustainable withdrawals for a portfolio for typical markets (50th percentile)

Projected outcomes for 40/60 portfolio at various initial withdrawal rates



Projected outcomes for various portfolios at 4% initial withdrawal rate

ONE SIZE DOES NOT FIT ALL

Higher initial withdrawal rates or overly conservative portfolios can put your retirement at risk. However, setting your spending at retirement too low and not adjusting along the way may require unnecessary lifestyle sacrifices in retirement. Consider a dynamic approach that adjusts over time to more effectively use your retirement savings.

50th percentile means that 50% of the time you'll have better outcomes. Based on the high percentage of outcomes that tend to be clustered near the median, this may be considered the most likely potential outcome.

These charts are for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Portfolios are described using equity/bond denotation (e.g. a 40/60 portfolio is 40% equities and 60% bonds). Hypothetical portfolios are composed of US Large Cap for equity, Global Aggregate Hedged Bonds for fixed income and US Cash for cash, with compound returns projected to be 7.00%, 3.25% and 2.25%, respectively. Returns are derived from conventional indexes over the 1996-2015 historical period based on global model portfolios from FinaMetrica Pty Limited corresponding with their investor risk preference methodology (ANZCUS version with REITs). Performance data for models represents past performance from indexes. Indexes are not available for direct investment. The yearly withdrawal amount is set as a fixed percentage of the initial amount of $1,000,000 and is then inflation adjusted over the period. Past performance is no guarantee of future results. No representation is made that results associated with a particular asset class or asset allocation strategy will be obtained. Allocations, assumptions and expected returns are illustrative only are not promises or even estimates of actual returns a portfolio may achieve.

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Index Definitions and Disclosure

Indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

The **S&P MidCap 400 Index** tracks a diverse basket of medium-sized U.S. firms. A mid cap stock is broadly defined as a company with a market capitalization ranging from about $2 billion to $10 billion.

The **S&P SmallCap 600 Index** invests in a basket of small cap equities. A small cap company is generally defined as a stock with a market capitalization between $300 million and $2 billion.

The **Russell 2000 Index®** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **MSCI® EAFE (Europe, Australia, Far East) Net Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indexes, representing the developed markets outside of North America.

The **MSCI Emerging Markets Index℠** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

The **CS/Tremont Equity Market Neutral Index** takes both long and short positions in stocks with the aim of minimizing exposure to the systematic risk of the market (i.e., a beta of zero).

*Market Neutral returns for November 2008 are estimates by J.P. Morgan Funds Market Strategy and are based on a December 8, 2008 published estimate for November returns by CS/Tremont in which the Market Neutral returns were estimated to be +0.85% (with 69% of all CS/Tremont constituents having reported return data). Presumed to be excluded from the November return are three funds, which were later marked to $0 by CS/Tremont in connection with the Bernard Madoff scandal. J.P. Morgan Funds believes this distortion is not an accurate representation of returns in the category. CS/Tremont later published a finalized November return of -40.56% for the month, reflecting this mark-down. CS/Tremont assumes no responsibility for these estimates.

The **NCREIF Property Index** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment.

The **FTSE NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **Barclays Capital U.S. Aggregate Index** represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

The **HFRI Equity Market Neutral Index** is an equally weighted performance index. The HFRI is broken down into 33 different categories by strategy. The strategy of this index seeks to profit by exploiting inefficiencies between related equity securities, neutralizing exposure to market risk by combining long and short positions. In many cases, portfolios are structured to be market, industry, sector and dollar neutral. One example of this strategy is to build portfolios made up of long positions in the strongest companies in several industries and take corresponding short positions in those showing signs of weakness. Due to the mutual agreements with the hedge fund managers listed in the HFRI database, the index is not at liberty to disclose the particular funds behind this index.

The **Merrill Lynch Global Government Index** tracks the performance of investment-grade sovereign debt publicly issued and denominated in the issuer's own domestic market and currency. In order to qualify for inclusion in the Index, a country (i) must be an OECD member; (ii) must have an investment-grade foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch); (iii) must have $50 billion (USD equivalent) outstanding face value of Index qualifying debt (i.e., after imposing constituent level filters on amount outstanding, remaining term to maturity, etc.) to enter the Index; (iv) must have at least $25 billion (USD equivalent) in outstanding face value of Index qualifying debt in order to remain in the Index; (v) must be available to foreign investors; and (vi) must have at least one readily available, transparent price source for its securities.

The **Merrill Lynch U.S. High Yield Index** tracks the performance of US dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings).

The **Dow Jones Industrial Average** measures the stock performance of 30 leading blue-chip U.S. companies.

The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

Disclosure: Professional Financial Strategies, Inc. is an investment adviser registered with the Securities and Exchange Commission, and independently associated with Charles Schwab & Co., TIAA and Dimensional Fund Advisors LP.

A current Firm Brochure and Supplement are available by calling 585.218.9080 or emailing paulhill@professionalfinancial.com.

Second Opinion Service

In these volatile times, you probably know a friend, family member or colleague who may have a complicated situation, or who wonders whether they have the right financial advisor, or who just needs help, but doesn't get it. That's not uncommon. Studies suggest that over 80 percent of affluent investors would value a second opinion.*

In order to help those you care about achieve their financial goals, we have created our complimentary **Second Opinion Service**. We're pleased to offer your friends, family and colleagues the same expertise and guidance that you've come to expect as a valued client of Professional Financial.

Professional Financial works with successful professionals and retirees, acting as their personal chief financial officer–meeting financial challenges, freeing them from many serious concerns. We integrate financial planning, investment management, and relationship consulting into a personalized process for each family.

We steward wealth through a consultative process, helping families make informed decisions around preserving wealth, mitigating taxes, transferring wealth to heirs, protecting assets from unjust loss, and making a difference through charitable giving. We employ a comprehensive approach to better understand our client's deepest needs, values and goals.

Founded in 1993, Professional Financial is an independent fee-only registered investment advisor staffed with Certified Financial Planners.™ Professional memberships include: Financial Planning Association, American Institute of CPAs, Institute of Chartered Management Accountants, and National Association of Accountants.

WEALTH MANAGEMENT CONSULTING PROCESS

Step 1	Step 2	Step 3	Step 4	Step 5
Discovery meeting	Investment planning meeting	Mutual commitment meeting	Organizational meeting	Regular progress meetings

*Source: Russ Alan Prince and David A. Geraciati, *Cultivating the Middle-Class Millionaire*, 2005.

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Working with a team that redefines wealth management

Ask ten investors to define wealth management. Rather, ask ten typical "wealth managers" to do so. You'll almost certainly get ten different answers, and most replies will primarily focus only on investing. As a client of Professional Financial, however, you benefit from a team of CFPs® with a network of specialists having a clear and comprehensive vision of true wealth management.

Our consultative process

At Professional Financial we approach each new engagement with a time-tested, collaborative process. This allows us to have an open dialogue with you so we can learn about your values and goals. This proven process enables us to work with you to tailor a plan that helps you meet your essential goals. As a valued client, you'll recognize each of the five steps below. As part of our **Second Opinion Service**, we offer a portion of our consultative service, complimentary, to you friends, family and colleagues.

What to expect from the Second Opinion Service

We will meet with your friends, family and colleagues for a discovery meeting and then invite them back for an investment planning meeting. Hopefully, we can confirm whether they are on track to achieve their goals with their existing financial providers. If appropriate, however, we'll suggest ways we can help, including recommending another qualified advisor if we're not a good fit for them. Either way, your family and friends will receive a Total Client Profile and a detailed analysis of their current investment portfolio and planning strategy–a value that may be in excess of $5,000.

SECOND OPINION SERVICE

Step 1	Step 2
Discovery meeting	Investment planning meeting

CONSULTATIVE WEALTH MANAGEMENT

INVESTMENT MANAGEMENT

- Wealth preservation
- Goal monitoring
- Risk analysis
- Portfolio structuring
- Manager due diligence
- Performance evaluation

ADVANCED PLANNING

- Wealth enhancement, including cash flow, tax minimization, and liability management
- Wealth transfer
- Wealth protection
- Charitable giving

RELATIONSHIP CONSULTING

- Regularly scheduled calls, reviews and in-person meetings
- Network of specialists, including accounting, tax, actuarial, legal, insurance and financial resources

Let us help you help those you care about. Contact us today.

Professional Financial Strategies, Inc.
Powder Mill Office Park
1159 Pittsford-Victor Road, Suite 120
Pittsford, NY 14534
(585) 218-9080
(585) 218-9292 (direct)
planning@ProfessionalFinancial.com

Paul Byron Hill, CFP®
President | Top Wealth Manager

Kam-Lin "Katherine" Hill, CFP®
Vice President | Wealth Consultant

www.ProfessionalFinancial.com

Disclosure: Professional Financial Strategies, Inc. is an investment adviser registered with the Securities and Exchange Commission, and independently associated with Charles Schwab & Co., TIAA and Dimensional Fund Advisors LP.

A current Firm Brochure and Supplement are available by calling 585.218.9080 or emailing paulhill@professionalfinancial.com.

Investing involves risks such as fluctuating values and potential loss of investment principal. Past performance may not be indicative of future results. Indexes used for benchmarking purposes are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Diversification does not insure a profit or protect against loss in a declining market. Moreover, no investor should assume that future performance of any specific investment, investment strategy, or product directly or indirectly referred to in any general informational materials, will be profitable or equal any corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable for a client's retirement portfolio.