Slide 1

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GET TO KNOW OUR TEAM

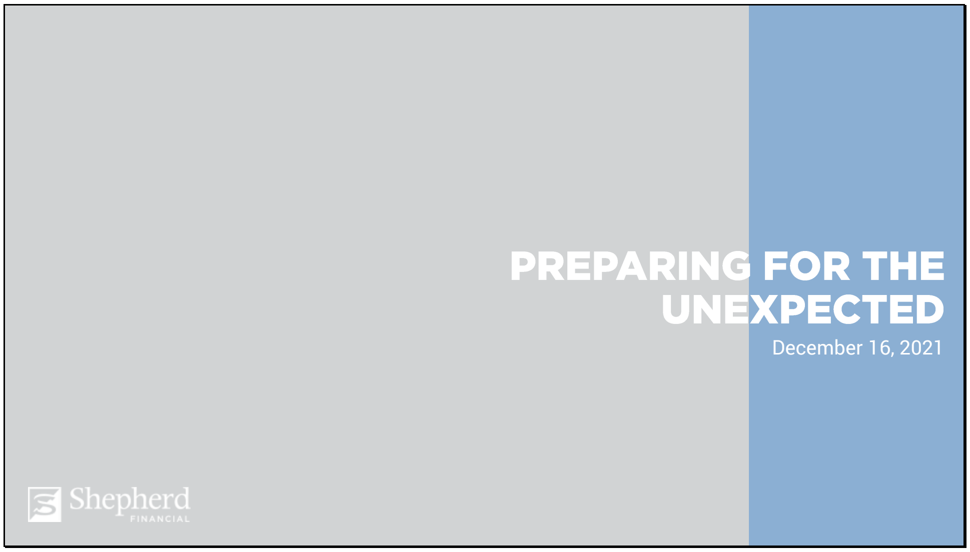
Leah Hill is a partner and the Director of Retirement Plan Services at Shepherd Financial.

Leah is an amazingly thoughtful gift giver, but don't ask her to wrap the gifts.

Holly Willman is the Director of Creative and Strategic Operations at Shepherd Financial.

It's ok, because Holly prefers Leah's gifts in plastic bags anyway.

Slide 2



We have watched the world experience unprecedented loss in the past two years, so this is a timely topic. It probably hits very close to home for some of you, and we get it. Losing someone is devastating, but not having a plan and the proper tools in place, as well as the failure to ensure everyone understands the plan, leads to further devastation and potentially collateral damage to future generations. Talking about the inevitable occurrence of death before it happens can certainly be uncomfortable and emotional, which is why many families tend to avoid it altogether. But it's important to think about how you can make it easier.

We're here to talk about how to take the initiative early, arrange family money meetings, and carefully consider the implications of inheritance plans. What's important to remember is that this is probably not a one-and-done conversation. This is an ongoing process that must be created and then consistently communicated to ensure everyone is on the same page.

Slide 3

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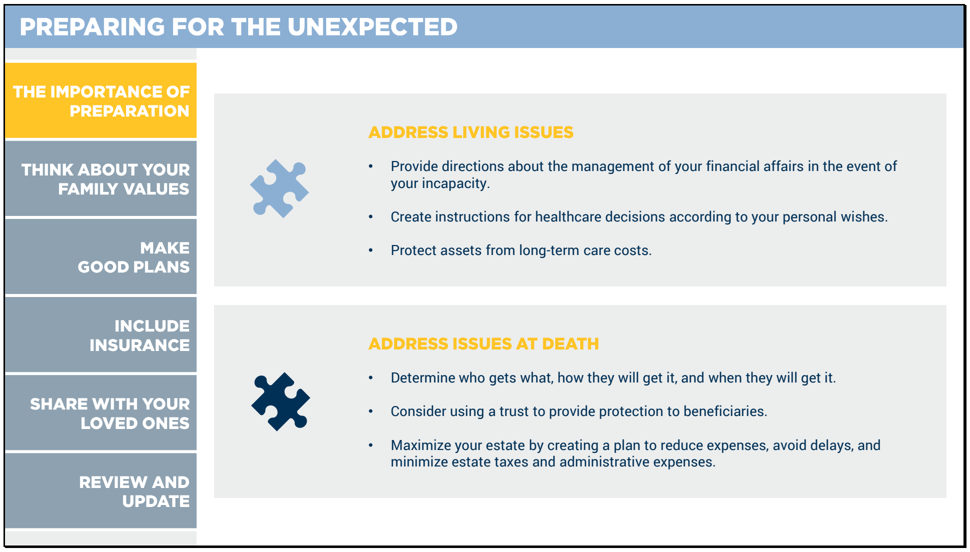
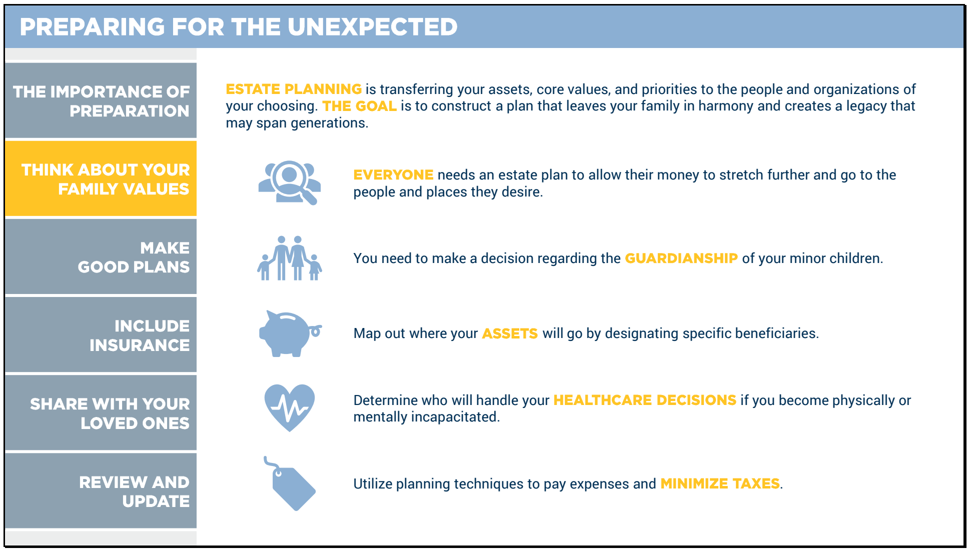
Slide 4



We touched on this a little bit, but let's start with why this topic, this whole uncomfortable conversation, is necessary. The ultimate goal, I think, is to be clear about intentions and expectations. Additionally, plans and preparations will also be a comfort and support to your family should something unexpected happen to you. You want to be able to control what happens in the future based on your wishes. And that doesn't happen without careful planning.

When you think about investing, you usually have specific goals in mind, like enjoying retirement or paying for your kids' college expenses. So why wouldn't you create a plan with similar goals in mind? And talking to a financial advisor can help – you can build the plan together and then explain it to your family. You'll want to include different areas like your assets and liabilities, cash needs, your investment portfolio, providing for long-term health care needs, retirement income needs and funding sources, insurance coverage, and coordinating with various professionals. There's quite a lot to think about.

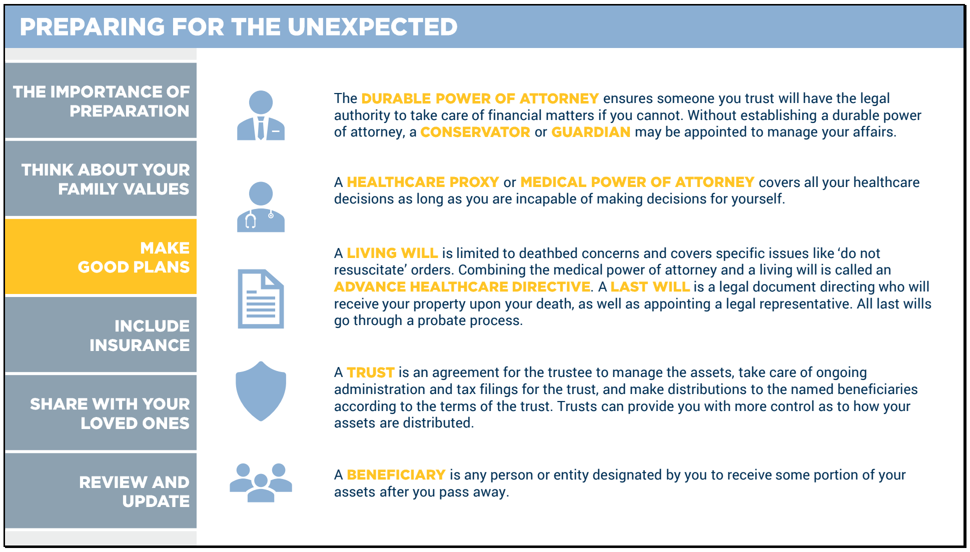
Slide 5



Although this can certainly be an intimidating conversation, there are some things you can do to help it along. Start by thinking about your family values. When we talk about estate planning, it’s not just about transferring assets. You’re also transferring core values and priorities. We have a few prompts to help you here: What are family values you want to pass down to the next generation? Why are those values important to you? Beyond those questions, you might think of some stories or examples from your own life that may help communicate those values to your heirs. Family stories are a great way to explain what you hope for in the future. You can include successes, of course, but consider mistakes you’ve made and the lessons you learned.

And then you’ll want to consider the actual family members involved in your legacy here. If you have children, you definitely need a plan, because if you don’t make a decision regarding the guardianship of your minor children, the state court will step in and make this decision on your behalf. Or turn that around a little – if you become physically or mentally incapacitated, who is going to take care of you? Who will take care of those everyday things you take for granted, such as paying bills, getting money from the bank, or filing your tax returns? It’s also very important to ask the question – if you can’t make decisions regarding your own health care, who should?

Slide 6



I want to talk about preparing your personal inventory. This is more than just a financial inventory, although that's certainly part of it. This inventory is going to provide important personal information about you and your family to your executor when it comes time to settle your estate. It will help them locate beneficiaries, where you keep important documents, illustrate all the pieces of your estate, and what your beneficiaries can inherit.

This might seem surprising, but you and your partner should each prepare your own personal inventories. Even though certain sections will be the same, there are other sections specific to you. This exercise should be a great starting point for you as you gather information and documents all in one place. You're going to want to include information about your family – that includes you, your spouse, your parents, your children, and even your pets. Then you'll include employment information, followed by testamentary information, basic security information, funeral instructions, and finally, the calculation of your estate value, as well as instructions for distribution.

You can see there are many different legal documents you may want to include in your estate plan. Let's talk about a few of them here.

The healthcare proxy – or medical power of attorney – covers all your healthcare decisions as long as you are incapable of making decisions for yourself. You might need a medical power of attorney if you become temporarily unconscious or unable to communicate. This person is obligated to make your treatment decisions according to your wishes.

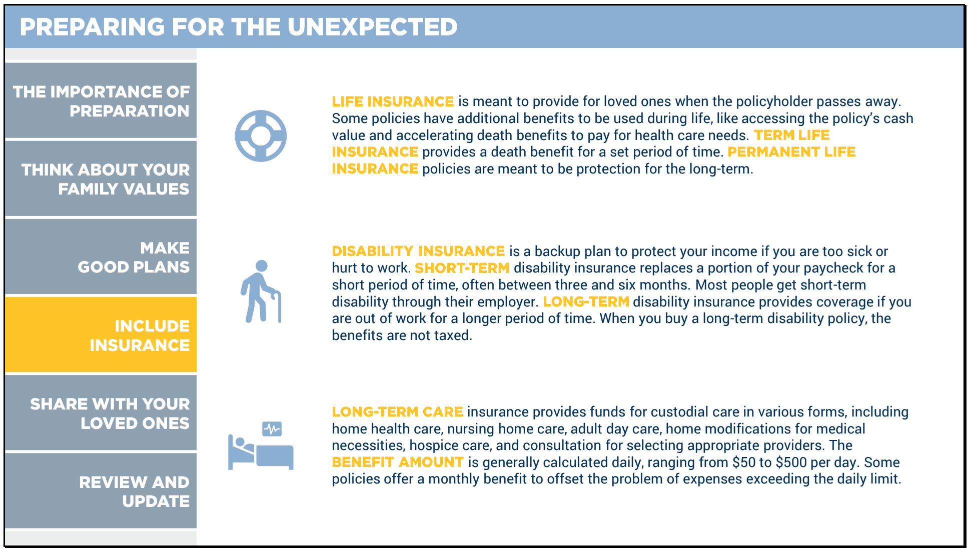
A living will is limited to deathbed concerns only. It's used to declare your desire to not have life-prolonging measures be taken if there's no hope of recovery. This is very important and can make a big difference by making your wishes clear. It can help prevent confusion or disagreements, which is always a plus in emotionally difficult situations. No matter who you choose, make sure you have a discussion with them so there is a mutual understanding ahead of time regarding your medical directives.

A living will and a last will sound similar, but they are two very different things serving different needs. A last will is a legal document directing who will receive your property upon your death, as well as appointing a legal representative. Wills are not difficult to create, but it's important to know that all last wills go through a probate process. This is a legal process that validates a person's will following their death. Probate inventories a person's property, pays off any outstanding debts or tax liabilities, and then administers distributions of the remaining proceeds to the beneficiaries. This can obviously be a complex and sometimes uncomfortable process, so a last will can really help that go more smoothly.

A trust is an agreement for the trustee to manage the assets, take care of ongoing administration and tax filings for the trust, and make distributions to the named beneficiaries according to the terms of the trust. Due to the complexities of trusts, we recommend you consult with a competent attorney specializing in trusts. Trusts generally last for a number of years. Over time, the identity of the trustee and the beneficiary may change. Importantly, trusts can provide you with more control as to how your assets are distributed. In addition, they can reduce the taxes owed by your estate and heirs, protect your assets from creditors and lawsuits, and put conditions on how and when your assets are distributed.

A beneficiary is any person or entity designated by you to receive some portion of your assets after you pass away. The estate planning process is a good time to make sure you've identified beneficiaries for all your accounts. Something important to note is that most financial accounts like insurance policies, 401(k) plans, and some brokerage accounts require a beneficiary designation to be on file. These designations typically override any directions in your will, so take time to consider whether the beneficiaries you currently have designated mesh well with your overall estate plan. If you're not sure how to designate the beneficiary for your retirement plan account, email us at shepfinteam@shepherdfin.com, because we have those instructions ready for you.

Slide 7

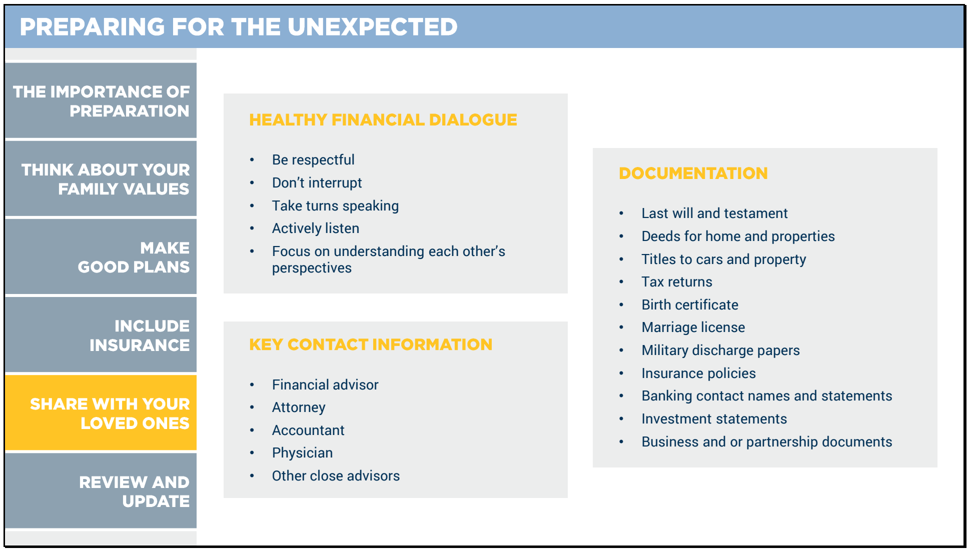


You want to have adequate policies that will cover you and your loved ones. Life insurance is an agreement between you and your insurance company. You make regular payments, called premiums, and the insurance company pays your beneficiaries a tax-free lump sum of money when you die. In other words, life insurance is to provide for your loved ones if something happens to you. Additionally, with some policies, you purchase other benefits to use during your lifetime, like accessing the policy's cash value, which can be used for a down payment on a home. You can also accelerate death benefits and use them for health care needs. You want a policy that fits your needs without costing too much. So you have to decide how much you need, how much you can afford to pay, and the kind of policy you want. To determine the amount you'll need, one way is to figure out how much cash and income your dependents would need if you were to die. You can think of life insurance as a source of cash needed for expenses for final illnesses, paying taxes, mortgages, and other debts. It can also provide income for your family's living expenses, educational costs, and other future expenses. Your age, gender, health, lifestyle, and occupation all factor into the cost of life insurance.

Your income pays for pretty much everything, from housing to utilities to food to childcare, and much more, right? If you're like most people, being without income because of an unexpected illness or injury could have serious financial consequences. But that's where disability insurance, also known as income protection, comes in. It's like a backup plan to help protect your income if you're too sick or hurt to work. You'll receive a set amount each month, just like a paycheck. Short-term disability insurance replaces a portion of your paycheck for a short period of time. Think three to six months. Most people get short-term disability through their employer. You can get an individual policy through some private insurers, but these plans generally cost more than they're worth. Long-term disability insurance provides coverage if you're out of work for a longer period of time. Think years or even decades. Long-term disability premiums are based on age, gender, occupation, and the policy's various features, but you can generally expect to pay between 1% to 3% of your annual salary for a policy. Long-term disability is sometimes offered by employers, but the benefit is less common, and the coverage is often inadequate. That's why people tend to take out supplemental long-term disability policies. When you buy a long-term disability policy, because premiums are paid on an after-tax basis, the benefits aren't taxed. That means a policy that pays out 60% of your gross income would effectively replace most of your take-home paycheck.

Long-term care refers to a host of services that aren't covered by regular health insurance. This includes assistance with routine daily activities, like bathing, dressing, or getting in and out of bed. This may involve a nursing home or assisted living facility, but it could also be for in-home care or home modification. Long-term care isn't cheap. In Indiana, the median cost of care in a semi-private nursing home room is more than $80,000 a year. People generally buy long-term care insurance for two reasons: to protect their savings and to get more choices for care. The more money you can spend, the better the quality of care you can get. If you have to rely on Medicaid, your choices will be limited to the nursing homes that accept payments from the government program. Medicaid does not pay for assisted living in many states. To find the right policy, first determine the type of risk you're trying to cover. Consider your health, hereditary conditions and longevity in your family, availability of family caregivers, and personal preferences.

Slide 8

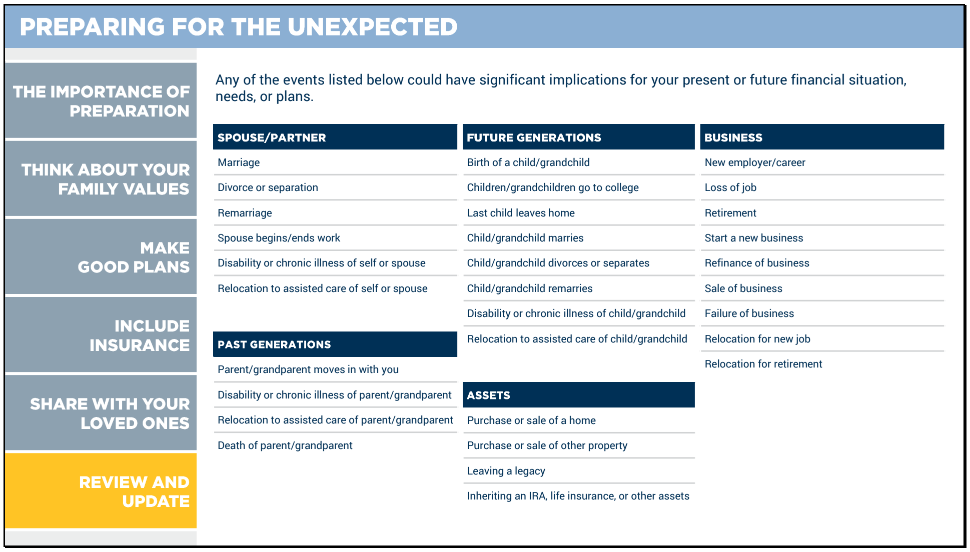


Now that you have all these pieces in place, it's time to make sure your loved ones know what you actually want to have happen. But how do you have that conversation? We'd suggest having a family money meeting – or series of meetings – moderated by a financial planning professional. As mentioned, you and your partner should each go through your estate planning information. Then sit down with your advisor and begin to articulate individual and shared goals. Once you are clear on those, it's time to meet as a family.

Start by reviewing some rules for a healthy financial dialogue. Be respectful, don't interrupt, take turns speaking, actively listen, focus on understanding each other's perspectives, and agree to disagree, if it comes to that. Remember, the purpose of this meeting is to clearly articulate your wishes, goals, and timelines for use, disposal, or gifting of assets. Your family needs to understand why you chose the representatives you chose for each role, like medical power of attorney or beneficiary. The biggest reason why estate plans don't actually go according to plan is because of trust and communication breakdowns within the family. Communicating your reasons for certain decisions and allowing people to ask questions while you are still around to answer them can definitely help ease potential tension.

It may help to have an emergency file for your family. That way, your spouse and other family members know how to contact your various advisors if something happens to you, as well as having copies of important documents. You'll want to include contact information for your financial advisor, of course, but also your attorney, accountant, physician, and any other close advisors. And those documents? Things like your last will, deeds for your house or investment properties, titles to cars, insurance policies, etc.

Slide 9

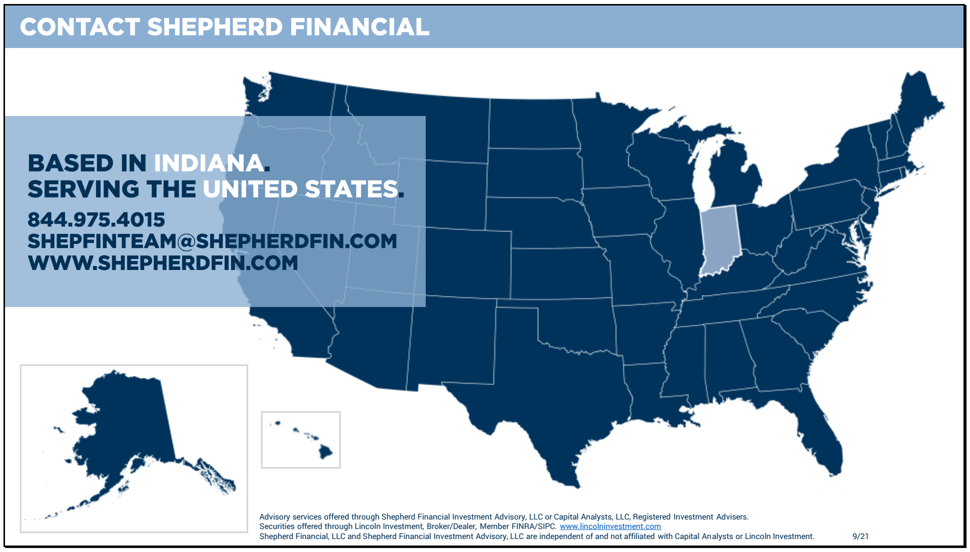


Once you have a great plan in place, you need to keep it in front of you. It needs to be reviewed at least annually, although it should be updated if you encounter some sort of life change. This could be a number of different things: marriage, divorce, birth, death, adoption, retirement, a child graduating, buying a house, etc.

But beyond that, you want to make sure your investment portfolio is up to date. And you should evaluate your balance sheet – look at your net worth, your assets, your liabilities. Did you pay off your mortgage? Did you decide to retire early? Lots of things could impact your balance sheet.

And go through your will – make sure those provisions still match up with your family values, your desired wishes, and that everyone included understands what’s ahead. Don’t forget to review your health care directives and end of life plans, too. Remember, you’re trying to make it easier for the people who are trying to follow the map you left behind.

Slide 10



Our team is, of course, here to help you every step of the way. Don't forget, our next Open Phone Day is Tuesday, January 4th, and you can sign up for that by emailing shepfinteam@shepherdfin.com. And you can, as always, reach us anytime at 844.975.4015 or 317.975.5033. Have a great Thursday!