

Client Notes and Implementation Plan
The Emmett Family
Est. Nov 1, 2021



Goals

The BIG Fact by Theodor Rubin

90% of decision making, there is no right or wrong answer. Instead, the success of our choices is determined by how committed we are, by our attitude and behaviors, to making them successful. Your success or failure is determined by your own efforts. Identify obstacles, put together a thoughtful plan for overcoming each and move forward.



Goals Already Achieved

Estate planning documents are completed.

New 529 and brokerage account is open and fully funded for 2021.

Top Goals

1. **Big Picture Plan**
2. **Tax Projection**
3. **Buy new home**
4. **College saving plan**
5. **Retire by ages 60 and 56**



Priority To Dos:

- All priority action items will be added to Knudge Reminders.
- Create a structure for money and savings, you know what goes where, how it is working for you, automate that and what the purpose of that money is.
- Create a reliable retirement savings plan to meet retirement/financial independence goal by age 60.
- Create a savings plan to ensure college or other investment in our child can be realized.
- Be aware of what can impact taxes, aim to minimize lifetime tax liability.
- Purchase a larger home by yearend 2022
- Travel or activity goals we have for this year, be detailed
- Overcome decision paralysis and know that we are resilient, even if/when we make a mistake, we can adjust and correct going forward
- Overall, be smarter about money

General Themes

Saving aggressively in the right tax-preferred accounts will increase your chances for a secure retirement in about 15 years.

Investing as aggressively as you can for each spending goal in all accounts: retirement, taxable and 529 accounts will maximize growth on investments over the long term.

Appreciate the impact of housing costs on your short and long-term spending goals as well as spending in retirement.

Tax-smart distributions once you are finished with employment will increase what you keep in retirement by utilizing tax-smart strategies like IRA to Roth conversions, pre-tax distributions, and capital gains harvesting.

Retirement Income, Cash Flow & Savings

- Retire in 2037 at 60 and 56, keep it simple at the same time!
 - Monthly need = \$9,000 plus housing costs (desired income)
- How much cash (liquid money) should you keep available in your bank or high yield savings account? Do you have large cash needs within 3-5 years? An acceptable amount of cash would be no less than \$20,000 and can be as much as \$75,000.
 - In the event of an emergency, job loss primarily, you want enough on hand to cover household expenses for several months, up to one year without needing to dip into invested assets, potentially at the wrong time in the market.
- For your move to Richland, you will want to have money set aside for the down payment, new furniture and other expenses associated with a move. We estimated at least \$100,000 of savings that would be used along with the sale of your current home proceeds, \$300,000 to \$400,000 for new down payment.

Planned Saving

Year	Ages	401(k)	Roth 401(k)	Roth IRA	529	Taxable Saving	Total Planned Saving
2022	41/45	20,500	28,300 Mega Backdoor Roth in 401k	6,000	3,000	63,000 \$3,000 to T's brokerage and rest to Joint brokerage	120,800
2023	42/46	21,000	29,000	6,000	3,090	65,293	124,383
2024	43/47	21,500	29,680	6,500	3,183	67,274	128,137
2025	44/48	22,000	30,360	6,500	3,278	69,523	131,661
2026	45/49	22,500	31,540	6,500	3,377	71,851	135,768
2027	46/50	30,500	32,200	7,000	3,478	73,418	146,596
2028	47/51	31,500	32,860	7,000	3,582	72,363	147,305
2029	48/52	32,000	33,500	7,000	3,690	71,463	147,653
2030	49/53	33,000	34,140	7,500	3,800	69,641	148,081
2031	50/54	33,500	35,760	8,500	3,914	66,450	148,124
2032	51/55	34,500	36,380	9,000	4,032	64,406	148,318
2033	52/56	35,500	37,000	9,000	4,153	62,712	148,365
2034	53/57	36,500	38,100	9,500	4,277	59,865	148,242
2035	54/58	37,000	39,180	9,500	4,406	108,654	198,740
2036	55/59	38,000	40,260	10,000	4,538	53,887	146,685
2037	56/60	0	0	2,122	4,674	0	6,796
2038	57/61	0	0	2,185	4,814	0	6,999
2039	58/62	0	0	2,251	4,959	0	7,210
2040	59/63	0	0	2,319	0	0	2,319

College Saving Plan – Review Education Funding Analysis in Right Capital

Full cost of one year of college in 2022

Elite, Harvard College
Total cost - \$82,178

Private 4-Year, Whitman College
Total cost - \$71,418

Public 4-Year, University of Washington
Total cost - \$30,994

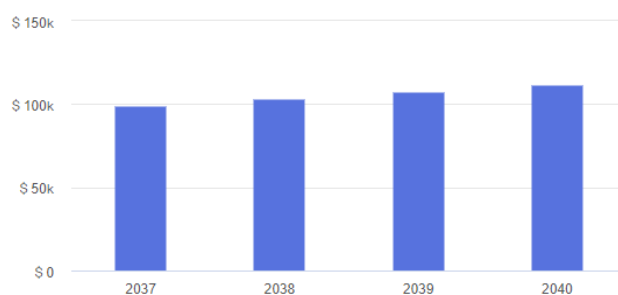
Determining future college costs is a challenge. Costs depend on many variables including the institution you attend, living on or off campus, the aid you may receive and tuition inflation. You have set a goal to fully fund college by saving about 50% into a tax-preferred 529 plan and 50% into an investment brokerage account earmarked for Terri's benefit. As time goes along, you will adjust the level of savings and how it is invested. As Terri gets older, it'll be important to discuss your expectations with her regarding your plans to pay as well as what you intend for her to assist with.

Here are two separate future estimates.

Mefa, <https://www.mefa.org/pay/college-cost-projector#future-college-costs>

Year	National Public 2-Year	National Public 4-Year In-State	National Public 4-Year Out-of-State	National Private 4-Year
2036	\$19,436.78	\$33,549.24	\$58,446.47	\$76,794.18
2037	\$20,019.88	\$34,555.72	\$60,199.86	\$79,098.01
2038	\$20,620.48	\$35,592.39	\$62,005.86	\$81,470.95
2039	\$21,239.09	\$36,660.16	\$63,866.03	\$83,915.07

Right Capital at 4% inflation of a private 4-year institution (\$54,880 in today's money)
Projected total education cost is \$419,700.



To fully fund this goal you can start with the \$10,000 investment into a 529, selecting an allocation (target date or individual funds) that can be as aggressive as 100% stock down to 80% stock while Terri is still young. The target date fund will over time become less allocated to stock and as she gets closer to starting college, it can be in a conservative allocation with up to 25% stock or even all cash.

Then you can set up a recurring contribution to the 529 for \$250 a month and open a brokerage account with \$10,000, the same level of stock as the 529, also contributing \$250 a month. At a moderate average return of 6% those accounts combined should grow to approximately \$400,000 by the time she starts college. This would cover the estimated inflated cost of private 4-year college tuition.

Of course you will want to review progress and growth year by year to make adjustments to the savings level and modifications to the investment allocation as time goes on. The taxable portfolio will need to be invested in a tax efficient allocation ETF, something like VTI or AOA to minimize year by year ordinary income taxes, since it is not tax sheltered like the 529 plan is. However, gains securities that are favorably taxed at long-term capital gains rate if held for 1 year or longer.

Ensure that grandparent's 529 is invested for growth. At least an age-based investment or a high stock allocation, 100% or 80% stock/20% bonds or so. Maximize growth in these early years and you'll reduce stock allocation as she gets closer to going to college.

529 plan assets can act as a legacy or estate planning tool as well.

Be aware of fees of 529 plans and expenses of the underlying investments too. New Hampshire Portfolio 2036 expense ratio is .57% moderately high.

I can manage 529 plan assets through the Utah my529 program. <https://my529.org/other-essentials/frequently-asked-questions/>

Best rated: <https://www.savingforcollege.com/intro-to-529s/which-is-the-best-529-plan-available>

Oregon 529 plan <https://www.savingforcollege.com/529-plans/oregon/oregon-college-savings-plan>

Vanguard/Nevada plan: <https://www.savingforcollege.com/529-plans/nevada/the-vanguard-529-college-savings-plan>

Washington DreamAhead Investment <https://www.savingforcollege.com/529-plans/washington/dreamahead-college-investment-plan>

Washington GET: <https://www.savingforcollege.com/529-plans/washington/guaranteed-education-tuition-get>

This plan is different in that it is a prepaid program. You buy units that are guaranteed to keep pace with rising tuition based on WA highest cost institution.

Utah My529 – I can open accounts here. <https://www.savingforcollege.com/529-plans/utah>

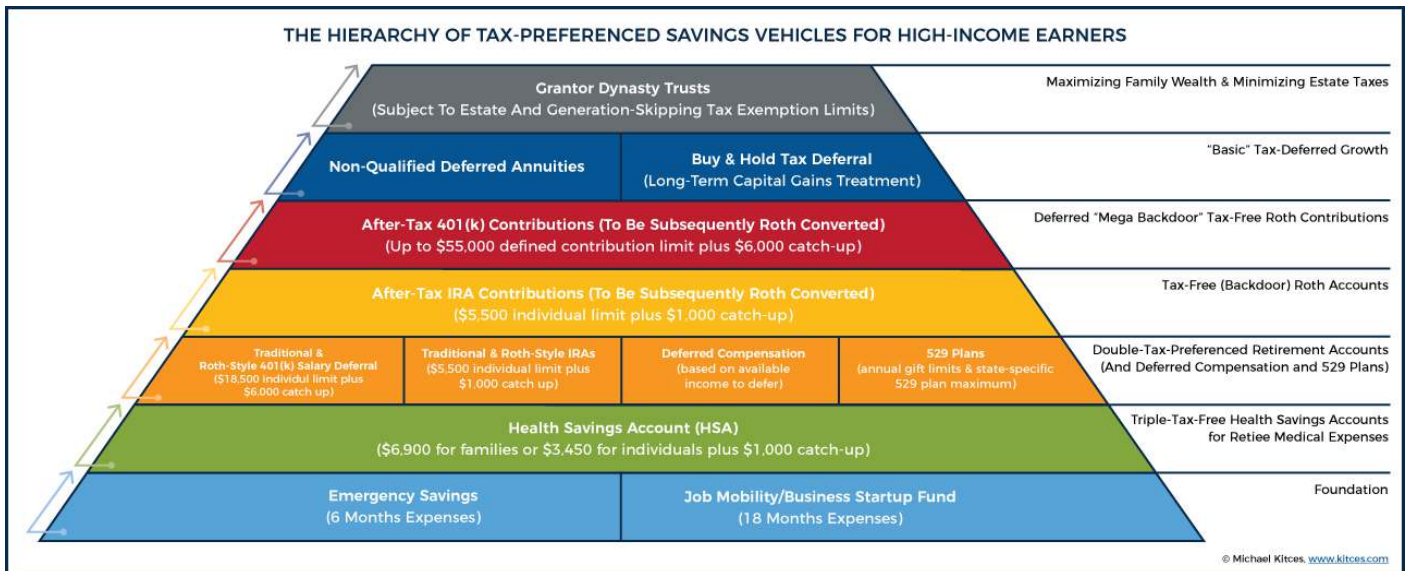
Risk Management – Asset Protection

- Parker's "human capital" is important to the success of the plan and is important to protect as the primary earner. Protecting her physical and mental health and her ability to earn is a top priority.
 - MISSING – Need more detail on the short- and long-term disability insurance offered PNNL.
 - Monthly benefit, inflation option or amount, elimination period, to what age, etc.
- Protect against loss of income by having disability insurance (currently provided at PNNL) or large emergency fund (6-12+ months of expenses)
- Protect against loss of life. Get quote for addition \$1-3 million of term on Parker and \$500k-\$1M on Riley. www.LLIS.com for quotes, can include Avea in the communications.
 - LLIS is also a resource for non-qualified tax-deferred investment annuities, long-term care.
 - Costco also has home, auto, life insurance products for members. <https://www.costco.com/life-insurance-services.html>
 - <https://www.costco.com/auto-home-insurance-services.html>
- Could lose group life insurance, so keep insurability with your own term policy.
 - Risk is that if Parker leaves PNNL, leaves behind that term policy, she may no longer be insurable and unable to get another large term policy.
 - If Riley dies, Parker would likely have enough income but may have additional expenses (childcare, loss of income, etc) that life insurance can offset.
- Confirm P&C coverage once settled in the new house

- Umbrella Liability – contact Pemco, your home/auto insurer 800-555-3626 to get quote on \$1-\$2M liability policy
 - Car/home underlying liabilities will be upgraded at same time.
 - This will be in increasingly important aspect of risk protection, as you build wealth, especially wealth outside of protected retirement accounts.
- Long-term care needs affect everyone, even younger people. We will want to discuss your feelings on getting an insurance policy, self-insuring, hybrid whole life/long term care or other alternatives. Home equity can also be viewed as quasi long-term care plan.
 - www.LLIS.com for long-term care quotes, can include Avea in the communications.

Income Taxes and Planning

- I put in a request for tax planning projection for 2022. Will start that process soon.
 - I am including tax return prep in our engagement.
 - Review tax planning in planning software, especially for years after work ends.
 - I think tax withholding is low for 2021. 2022 tax liability will be around \$90,000. Check that paycheck withholding is enough.
- Maximize all pre-tax 401k benefits (Flexible Savings Accts, etc) opportunities yearly. When earning high income, is not the time to do Roth 401k contributions. If you have an HSA (health savings accounts), do not spend from them, pay medical expenses from your income cash flow and aggressively invest the HSA money.
- Do annual Mega Backdoor Roth (401k) for Parker and regular (IRA) Backdoor Roth conversions (immediately after making a non-deductible IRA contribution) for Riley to the maximum allowed when possible. Riley can save into a non-deductible IRA, up to IRS limits (\$6,000 for 2022). Even if you don't qualify for a deductible contribution, you can still benefit from the tax-deferred investment growth. If you do that, you will need to file IRS Form 8606 with your tax return for the year.
 - This is the way to build your Roth assets, unless laws change disallowing it. Caution of Pro-rata rule.
- Utilize a donor advised fund (DAF) for tax smart charitable gifting strategy or integrate into estate planning.
- Savings tiers, see chart below:
 - 1) Health Savings Account (HSA) \$7,300 + (\$1,000 over 50) in 2022
 - 2) Double Tax-Preferred retirement accounts (Trad or Roth IRA) (and deferred compensation and 529 plans)
 - 3) Tax-free (backdoor) Roth accounts
 - 4) Deferred “Mega Backdoor” tax free Roth contributions
 - 5) Basic tax-deferred growth, non-qualified deferred annuity, “Investment-Only Variable Annuity” (IOVA)
 - 6) “Taxable brokerage account”, gains taxed at cap gains rate at sale, cushion
 - 7) Maximizing family wealth and minimizing estate taxes with grantor dynasty trusts



Investment Portfolio

- To retire at Parker's age 60 with approximately \$6,000,000 saved
 - \$50,000 into your taxable brokerage account
 - Put the maximum into retirement accounts (401k, \$20,500 and IRA \$6000). More after age 50.
 - Do Mega Back Door Roth in PNNL retirement plan about \$40,500 yearly (to the max allowed)
 - Contribute after-tax (non-Roth) money, then do in-service distribution at 59 ½, roll to IRA, convert to Roth. We'll collaborate on this to ensure accuracy.
- Consolidate accounts to simplify tracking, reduce fees, and later, prepare for Roth conversions and RMDs and tax-smart distribution strategies.
 - I can propose an investment program that I manage or refer to another advisor.
- Be aware of stock concentrations, specifically GOOG and AAPL. Need an investment plan that can be built around those concentrations or will need to diversify over time.
- Depending on savings goals and totals, can look at saving even more into Non-Qualified Annuities.
- Can build in fixed or guaranteed investments as well but growth is more important now.
- Possible allocations for a 80 stock/20 bond portfolio could look like this. We can work up actual portfolio.
 - 29-49% US Large Companies
 - 7-11% US Small Companies
 - 24-40% International Companies
 - 0-20% Cash & US/Int'l Bonds as a "Cushion"
- Higher Yield cash can be held here. <https://americandeposits.com/>

Health and Wellness

- Invest in a strong marriage. Money issues crop up in the best of relationships. Divorce is a real threat to personal and financial wellness. **www.gottman.com** Resources, and live workshops for relationship building.

- Prioritize your health and wellness, both physical and mental.
- Maintain recommended medical consultations.

Education & Legacy

- Discuss kids or grandkids gifting or supporting education goals. See above for college savings plan.
- Charitable giving plans

Estate Planning

- Create estate documents, see attorney & online options below.
- Need to finish filling out paperwork, send back to lawyer, then lawyer completes paperwork then meet to sign. Sending the email by Due Jan 14 by 11:00 am.

Attorneys:

For less complex situations, online options:
<https://trustandwill.com/> Starting price \$89

Local attorney: We'll discuss

Overall Probability of Adjustment/Monte Carlo

55%-85%

MINS Most Important Next Steps

DONE Riley – undo the 2021 Roth contribution by calling custodian

DONE Parker – complete estate planning docs and upload to vault a copy of signed documents

Set monthly appointments for the 60 or 90 minute options at [Clients only](#)

Milestones

55-59 ½ - Can access 401k accounts with in-service distribution if plan allows.

59 ½ - Can make withdrawals from your retirement account without penalty.

Riley - February 1, 2041

Parker - August 1, 2036

62 - Early SS retirement

Riley - August 1, 2043

Parker - February 1, 2039

65 - Medicare age 65

Riley - August 1, 2046

Parker - February 1, 2042

70 - Delayed SS retirement

Riley - August 1, 2051

Parker - February 1, 2047

72 - RMD age 72

Riley - August 1, 2053

Parker - February 1, 2049

Plans in Right Capital

Current: Current home, filing SS at 70 for both.

Proposed: New Richland Home, other changes, SS Riley age 67, Parker age 70

Plans in MaxiFi

Base

More Home

More Home Less Income

Net Worth - 3-11-2022

Description	P	R	Joint	Total
Assets				
Invested Assets				
Qualified				
P's Investment Account	\$1,642,356			\$1,642,356
P's Investment Account	\$54,685			\$54,685
R's Investment Account		\$618,870		\$618,870
Total Invested Assets	\$1,697,041	\$618,870	\$0	\$2,315,911
Real Estate Assets				
Primary Home			\$625,000	\$625,000
Total Real Estate Assets	\$0	\$0	\$625,000	\$625,000
Total Assets	\$1,697,041	\$618,870	\$625,000	\$2,940,911
Liabilities				
P's Card	\$7,400			\$7,400
P's Loan	\$125,000			\$125,000
Total Liabilities	\$132,400	\$0	\$0	\$132,400
Net Worth				
Total Net Worth	\$1,564,641	\$618,870	\$625,000	\$2,808,511

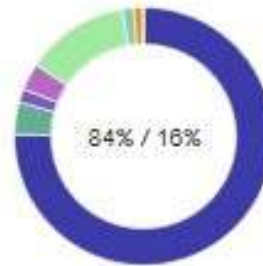
Probability of success of Proposed plan



\$2.9mm
Net worth

23.5%
Savings rate

Current allocation



- U.S. Equities
- International Equities
- Emerging Markets
- Real Estate
- U.S. Bonds
- International Bonds
- Cash
- Other

Equity / Fixed Income

Asset simulation results of Proposed plan



Tax allocation summary



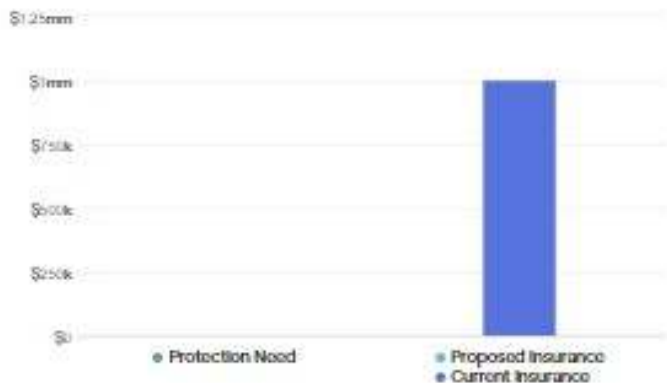
\$0
Taxable asset

\$2,046,463
Tax deferred asset

\$363,000
Tax free asset

- Taxable
- Tax deferred
- Tax free

P's life insurance analysis



Notes

Keep up the great work on saving for an early retirement!