Strategies to Protect and Maximize Your Investments and to Build a Retirement Plan

Presented by:
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Safeguard Your Future with Investment and Financial Planning

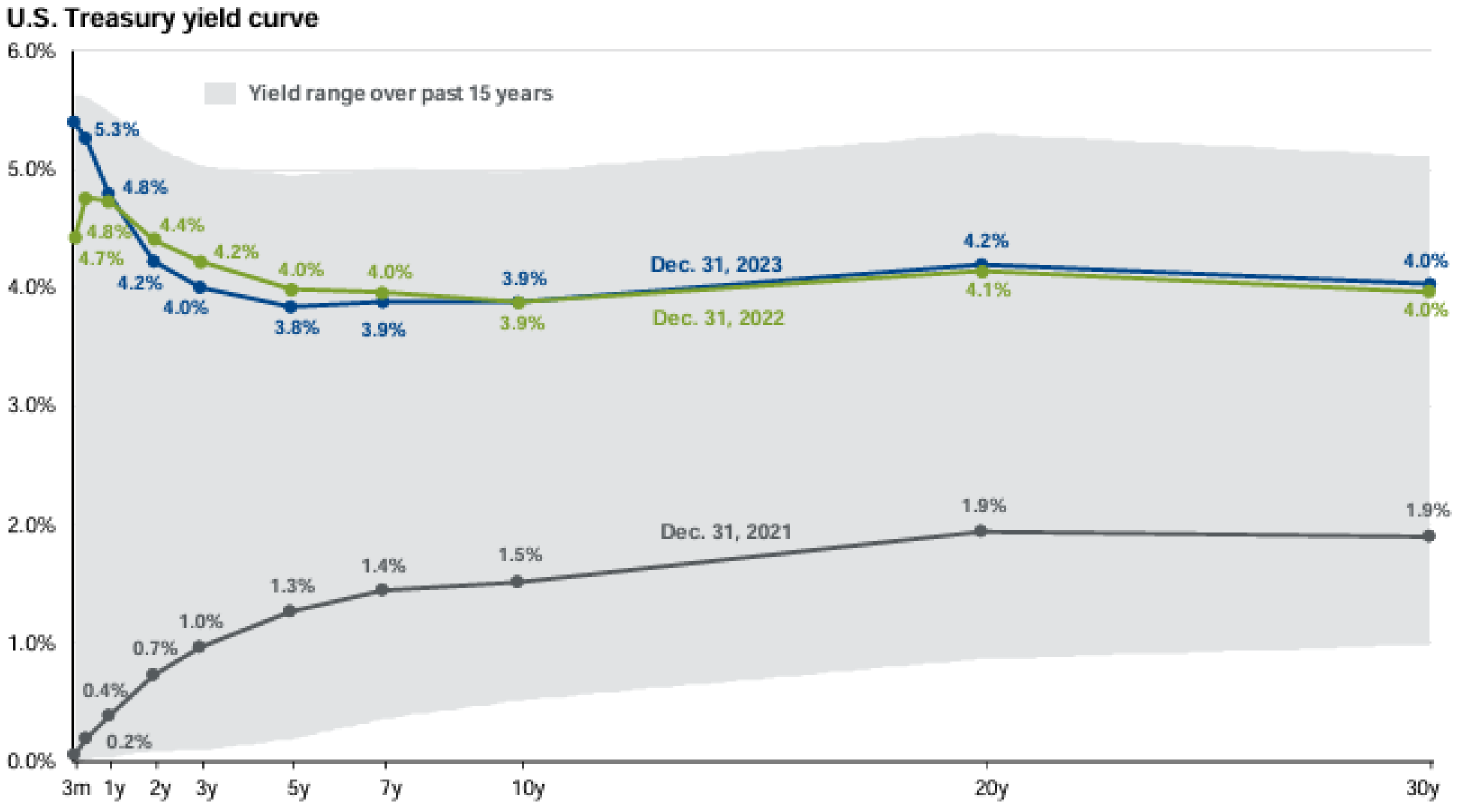
Today's Topic:

Review some of our favorite retirement savings and personal finance strategies.

- Protecting Your Investments (including some year-start strategies)
- Retirement Planning Strategies

Interest Rates Have Changed Dramatically

Earning Interest on the Yield Curve



Source: JP Morgan Asset Management

Stock Market (S&P 500) Valuation Measures

Valuations have fluctuated

Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	19.51x	16.59x	0.90
CAPE	Shiller's P/E	32.43x	27.55x	0.79
Div. Yield	Dividend yield	1.54%	2.00%	1.33
P/B	Price to book	3.97x	3.11x	1.10
P/CF	Price to cash flow	14.82x	11.13x	1.64
EY Spread	EY minus Baa yield	-0.33%	0.04%	0.20

Source: JP Morgan Asset Management

Protect and Maximize Your Investments

- Beware! There are Different Types of Advisors
  - Advisors who possess a fiduciary duty to their clients are required to put their clients' best interests above their own at all times.
  - Many people are surprised to find out that this obligation isn't required of all advisors.
  - There are many well regarded regional and national brand name storefronts that do not follow fiduciary standards and this may be in direct conflict with what is in the best interest of prospective clients.

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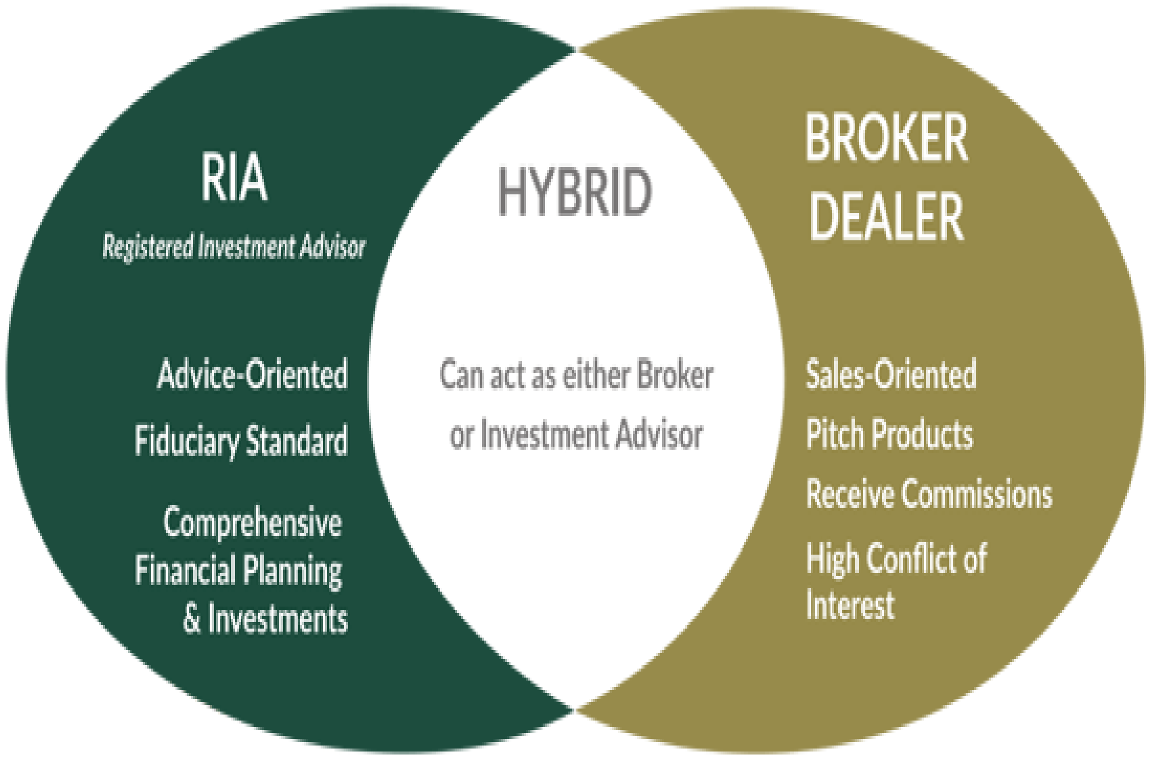
Beware: There Are Different Types of Advisors
What is a Fiduciary Fee-only Advisor?



Approximate % of Advisors by Category	12%	27%	61%

Retirement Planning Pitfalls

- Put a Plan in Writing with the Correct Updated Assumptions

  - Use a wide range of market returns assumptions, including rate of inflation and other macro factors.

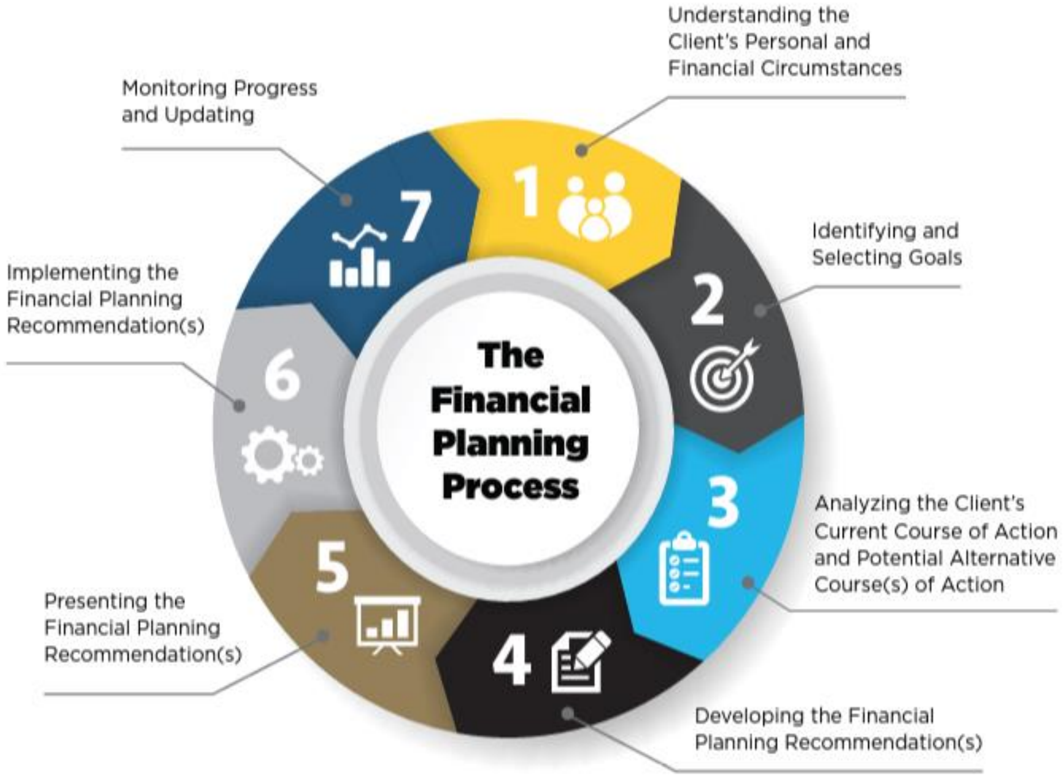
  - Factors that need to be considered include debt repayment, living expenses, investments and returns, taxes, as well as the need for long-term care.

  - Evaluate how your income and expenses will change in retirement.

Steps to Create a Financial Plan and Avoid Mistakes

Safeguard Your Future- Peace of Mind

1. Discovery – Evaluate Situation
2. Develop your financial goals
3. Identify alternative courses of action
4. Evaluate alternatives
5. Create and implement your financial plan
6. Review and revise the financial plan



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Source: Certified Financial Planner Board of Standards, Inc.

Select the Correct Risk Profile and Investments

Risk Management

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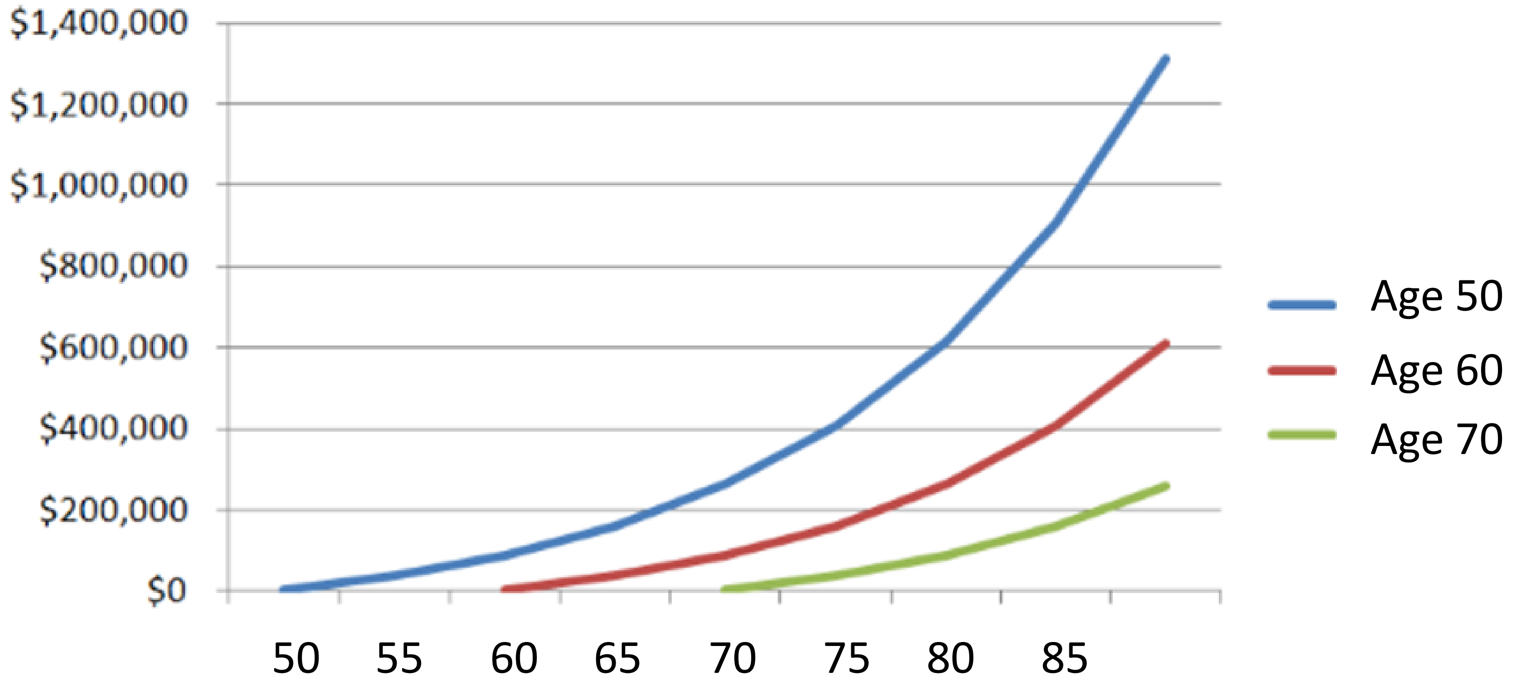
Retirement Savings Over Time
The Magic of Compounding



Is it Better to Invest in a 5% CD Right Now or Bonds and Stocks?

Disadvantages:

-Reinvestment Risk

-Can’t Lock in Rate for Longer

-No Appreciation

-Taxation

-Inflation Risk

Advantages:

-No Principal Volatility

-Good for Short Term Needs

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Select and Analyze Investments to Meet Goals
Risk Management

Assess investments and portfolios on:

- Asset allocation and diversification

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Select and Analyze Investments to Meet Goals
Risk Management

Assess investments and portfolios on:

- Asset allocation and diversification
- Tax efficiency

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Assess investments and portfolios on:

- Asset allocation and diversification
- Tax efficiency
- Risk-reward profile

Select and Analyze Investments to Meet Goals
Risk Management

Assess investments and portfolios on:

- Asset allocation and diversification
- Tax efficiency
- Risk-reward profile
- Cost effectiveness

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How Can We 'Plan' to Reduce Our Tax Bill?

Manage factors that are not 'outside of our control'.

- Diversify Account Types
- Tax Deferred Accounts
- Watch Social Security and Medicare
- Roth Conversions
- Optimize Charitable Giving
- Tax-loss Harvesting
- Tax Efficient Investments (ETFs versus Mutual Funds)

How Can We ‘Plan’ to Reduce Our Tax Bill?

Location, Location, Location

- Just as we focus on allocating our investments between stocks and bonds to reduce volatility, it’s also important to think about the tax consequences of where we locate our investments.
- Asset location means that you want to hold your assets in different types of accounts from a tax perspective.
- Helps reduce your taxes!

How Can We ‘Plan’ to Reduce Our Tax Bill?

Location, Location, Location

- You can hold investments in tax-deferred accounts (e.g., Individual Retirement Accounts or IRAs), taxable accounts, or tax-exempt accounts (e.g., Roth IRAs).
- Paying attention to asset location can improve your portfolio’s after-tax returns and allow you to keep more of what your investments earn.

Where to 'Locate' an Investment?
Consider the following factors when deciding

- **Taxation of Interest**. Most interest is taxable as ordinary income.
- **State and Local Taxes.** Some securities are exempt from federal and/or state taxes (Interest Income from Treasury Bills, U.S. Savings Bonds and Municipal bonds).
- **Taxation of Capital Gains.** Short-term capital gains get taxed as ordinary income. Long-term capital gains result from the sale of an asset held for more than one year. The tax rate for long-term capital gains is lower than the investor's ordinary income tax rate.
- **Taxation of Capital Losses.** Generating a capital loss in a tax-deferred account provides no tax benefits.
- **Taxation of Dividends.** Qualified dividends are paid out of corporate earnings and receive the same preferential tax rate as long-term capital gains.

Safeguard Your Future with Investment and Financial Planning
Checklist- Tax Efficient Accounts and Investment Planning

- Contribute to tax efficient accounts
  - Retirement accounts (remember this includes Roth IRAs and Spousal IRAs) (YEAR START STRATEGY)
  - 529 Plans (YEAR START STRATEGY)
  - UTMA or UGMA Accounts (YEAR START STRATEGY)
  - Dependent Care Accounts (YEAR START STRATEGY)
  - Health Savings Accounts (HSA's) and Flexible Spending Accounts (FSA's) (YEAR START STRATEGY)
  - Taxable Brokerage Accounts - use tax efficient strategies (YEAR START STRATEGY)

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Financial Planning for Retirement

Retirement Accounts- Tax-Deferral

- Retirement account planning and related tax planning strategies are critical.
- When possible, you should typically defer as much employment income as possible during your earning years.
- Allow your money to compound on a tax advantaged/ deferred basis.

Financial Planning for Retirement
Retirement Accounts

- Income earned from employer: 401(k) plans, 403(b) plans, NGO 457 plans, 401(a) plans, etc.
- Income earned from self-employment: Traditional IRA, Roth IRA, Solo 401(k), or SEP IRA (but beware!)

Financial Planning for Retirement
Retirement Accounts

- Consider Roth (after-tax) contributions if they are available options in your employer's retirement plan
- Remember to take advantage of catch-up contributions also
- BONUS Account: If you have a 457b plan be sure to take advantage of the 457b plan which in 2024 allows you to save an ADDITIONAL $23,000 pre-tax (with an additional catch-up contribution for those age 50 or over of $7,500).

Financial Planning for Retirement

Retirement Accounts- Simplified Investment Order Workflow Summary

- Important to also consider the sequence which you invest in accounts.
- When possible, max out your 401(k) or SEP IRA or Solo 401(k) each year, then your Roth IRA or Backdoor Roth IRA, and then your individual/joint taxable account.

Financial Planning for Retirement

Retirement Accounts- Simplified Investment Order Workflow Summary

Step 1- Max out 401(k) or SEP IRA or Solo 401(k)

Step 2- Max out Roth IRA or 'Backdoor' Roth IRA

Step 3- Max out after tax contributions

Step 4- Utilize taxable investment account

Financial Planning for Retirement
‘Backdoor’ IRAs & Roth Conversions

- Consider Backdoor Roth IRAs & Roth IRA Conversions.
- High income professionals and dual-income families may not qualify to make Roth contributions so make non-deductible traditional IRA contributions and then convert them to a Roth IRA.
- Roth conversions are the transfer of assets that occurs when you move money from a traditional retirement account into a Roth account.

Secure Act 2.0 is Now Law

Significant Changes to Retirement and Tax Planning

Here are some of the main provisions to be aware of for retirement planning:

- The age to start taking RMDs increased to age 73 in 2023 and to 75 in 2033.
- Required automatic enrollment for newly created 401(k) or 403(b) plans beginning in 2025.
- Larger catch-up contribution option for those nearing retirement.
- The provisions will also make it easier for employers to offer a match to retirement plans for payments employees make to their retirement plans.
- Improved access to emergency savings.
- RMDs on Roth 401(k)s have been removed in 2024.
- Penalty-free rollovers from 529 Plans to Roth IRAs (w some restrictions).

Secure Act 2.0
Impact on 529 Plans

Families Can Make a Tax-free Rollover From 529 Plans to Roth Individual Retirement Accounts Starting in 2024

These transfers do come with some restrictions:

- $35,000-lifetime cap on transfers to a Roth IRA.
- After 15 years, the rollover can only be made to the beneficiary’s Roth IRA, not the account owner’s.
- Rollovers are still subject to the annual Roth IRA contribution limit (in 2024: $7,000 for those under 50, and $8,000 for those 50 and older) and would be counted against ordinary contributions.
- Contributions and earnings on those contributions made in the last five years cannot be rolled over to a Roth IRA.

Financial Planning for Healthcare
Health Savings Accounts

Health Savings Accounts offer a triple tax benefit, making them one of the tax code's most tax-favored savings vehicles:

1. Assets contributed to HSAs can grow free of taxes.
2. Savers can contribute to them on a pre-tax or tax-deductible basis.
3. Account-holders can withdraw the assets tax-free. This applies if the money goes toward (or is offset by) qualified medical expenses.

You can use your HSA funds on qualifying medical expenses now, or in retirement.

- Important: To get the optimal benefits from a Health Savings Account, you should invest the money for the future and avoid withdrawing the funds shortly after you contribute them.

Investment Planning
Taxable Brokerage Accounts

- Taxable brokerage accounts. A great way to build up assets and taxable investments.
- It is important to match the correct investment strategies with the respective type of account (taxable, non-taxable) to avoid tax consequences.
- Pursue tax efficient strategies in these accounts:
  - (1) keep turnover low and
  - (2) keep tax-inefficient investments in retirement accounts (NOT in taxable accounts).

Investment Planning
Underperforming Assets

- Contribute to tax efficient accounts
  - Retirement accounts (including Backdoor IRAs and Spousal IRAs)
  - 529 Plans
  - UTMA or UGMA Accounts
  - Dependent Care Accounts
  - Health Savings Accounts (HSA’s) and Flexible Spending Accounts (FSA’s)
  - Taxable Brokerage Accounts- use tax efficient strategies
- Avoid holding on to (underperforming) investments because you have had them a long time and became attached emotionally

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Charitable Planning
Maximize Deductions

- Contribute to tax efficient accounts
  - Retirement accounts (including Backdoor IRAs and Spousal IRAs)
  - 529 Plans
  - UTMA or UGMA Accounts
  - Dependent Care Accounts
  - Health Savings Accounts (HSA's) and Flexible Spending Accounts (FSA's)
  - Taxable Brokerage Accounts- use tax efficient strategies
- Avoid holding on to (underperforming) investments because you have had them a long time and became attached emotionally
- Maximize charitable contribution deductions

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Investment Planning
Use a long-term horizon

- Contribute to tax efficient accounts
  - Retirement accounts (including Backdoor IRAs and Spousal IRAs)
  - 529 Plans
  - UTMA or UGMA Accounts
  - Dependent Care Accounts
  - Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs)
  - Taxable Brokerage Accounts- use tax efficient strategies
- Avoid holding on to (underperforming) investments because you have had them a long time and became attached emotionally
- Maximize charitable contribution deductions
- Avoid emotional reactions to short-term market movements

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Rebalancing of Your Investments and Ongoing Review

1. Investor Horizon and Risk Tolerance
2. Asset Allocation
3. Research Holdings
4. Investment Recommendations and Changes
5. Rebalance and Tax Management
6. Monitor and Ongoing Review

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Identify and Evaluate Alternative Investment Courses

Common Investment Portfolio Problems and Solutions

Identify and Evaluate Alternative Investment Courses

Common Investment Portfolio Problems and Solutions

Client Situation

Large capital gains taxes from investment turnover

→

Recommended Action

Use tax-efficient vehicles to reduce taxes

→

Outcome

Maintained market exposure with reduced taxes

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Identify and Evaluate Alternative Investment Courses

Common Investment Portfolio Problems and Solutions

Client Situation

14 years until retirement but IRAs hold $300k cash

Recommended Action

Sell and invest cash in high quality equities

Outcome

Estimated gains of $474k in 14 years assuming 7% return

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When Changes Occur - Review Your Financial Plan

- Marriage or divorce
- Death of a spouse or partner
- Inheritance of Assets
- Change in beneficiaries/ Designating inheritance of new financial accounts
- Death of beneficiaries, executor(s), guardians, or trustees
- Purchase a new home or real estate
- Sale of a property previously included in your will
- Birth or adoption of grandchildren, or raising grandchildren
- A move to another state, which can have different laws
- Estate and tax law changes
- Significant changes to your financial situation (income, value of assets)

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- Follow Up Questions?

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