Dear Adam & Rachel,

Thank you for using our financial planning services. We discussed several topics on our recent call.

You are 48 and 50, married, with one child, Michael (15). Adam earns $370,000 in his role in MD-Administration. As a MD-Pediatrician, Rachel earns $250,000 at her own practice. You estimate your living expenses at $175,000 per year – excluding taxes.

You have $3.2MM in investment accounts. You own your home ($1MM), with a $160,000 mortgage. You have a $40,000 car loan.

You are considering retiring in 2033. You are looking for help with investing, tax planning, insurance planning, college planning, debt management, and guidance on becoming do-it-yourself investors. Here are your financial planning *To-Dos* in light of your goals from our call:

- ☐ **TRACKING SPENDING:** Continue tracking your spending. Consider either Mint.com, or your own spreadsheet for greater flexibility. Tracking your spending can help you better estimate your future expenses in retirement.

- ☐ **RAINY DAY FUND:** You have ~$50,000+ in cash savings. Continue maintaining at least three months of living expenses in cash as your rainy day fund. To be conservative, holding up to one year in cash is also appropriate. You may be able to earn a slightly higher interest rate with an online savings account.

Tax-Advantaged Investment Accounts

One of your biggest challenges is managing the tax impacts of investments in your taxable accounts. Therefore, you want to take advantage of tax-sheltered investment accounts where possible.

- ☐ **INDIVIDUAL HEALTH SAVINGS ACCOUNT (HSA):** Continue to contribute the maximum to your HSA annually - $7,200 for 2021. Invest all available cash in low-cost stock funds. Continue to pay for medical expenses with cash, letting HSA investments grow tax-deferred. Save all receipts for qualified medical expenses to make future tax-free distributions. Learn more here.

Employer-Provided Retirement Plans

- ☐ **RACHEL'S NEW 401(K):** Work with your tax preparer to determine if a 401(k) is the right plan for you. Your tax preparer can advise on paying yourself a slightly greater W2 wage than the $200,000 you are paying yourself now. Paying yourself just $5,000 more – for total wages of $205,000 – may permit the full $58,000 + $6,500 catch-up contribution.

- ☐ **ADAM MAXIMIZING CONTRIBUTIONS TO EMPLOYER-PROVIDED RETIREMENT PLANS:** Adam should continue contributing the maximum annually to your traditional 403(b) and 457 plans.

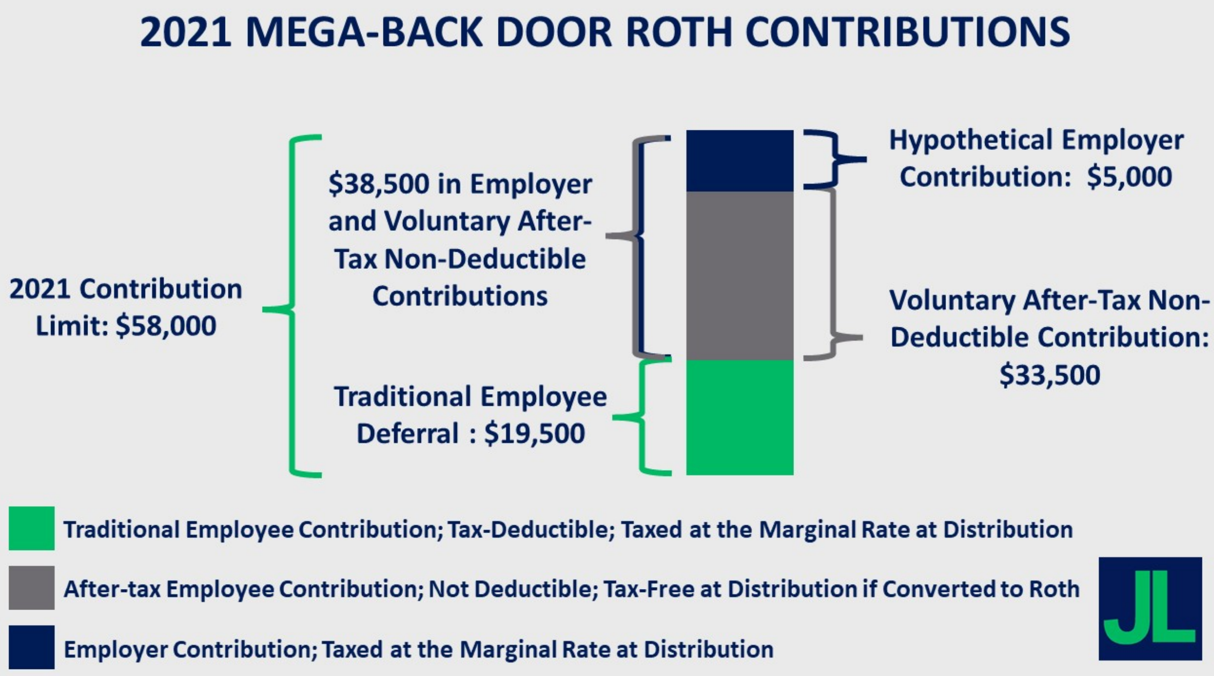
- ☐ **ADAM'S MEGA BACK-DOOR ROTH 403(B):** A mega back-door Roth utilizes your retirement plan's unused contribution limit ($58,000 in 2021) to make a Roth contribution. Not all plans offer this feature. Ask your Human Resources Department if your plan has the two following features:

1. Non-deductible voluntary after-tax contributions. These "voluntary after-tax" contributions are ***not*** the same thing as post-tax, or Roth contributions.

2. Either in-plan Roth conversions, or in-service distributions.

If these features are available in your plan, then, in addition to contributing the maximum $19,500 to your employer plan, contribute the maximum annually in voluntary after-tax dollars – up to $38,500, assuming no employer contribution. (The amount your employer contributes to your plan decreases the amount of voluntary after-tax dollars you can contribute.) Convert those voluntary after-tax contributions to Roth dollars via either an in-plan Roth conversion, or an in-service distribution to your Roth IRA. Learn more here.

If the second feature (in-plan Roth conversions, or in-service distributions) is not available, making non-deductible voluntary after-tax contributions is still worthwhile, as after-tax contributions will grow tax-deferred.

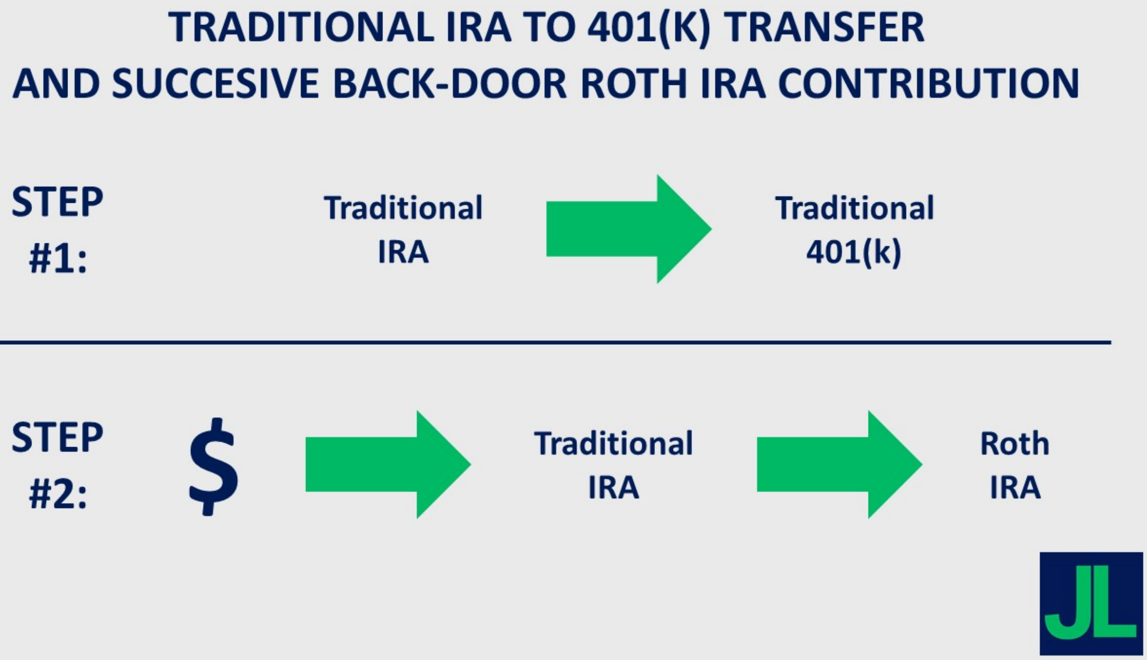


Individual Retirement Arrangement (IRA) Accounts

- **BACK-DOOR ROTH IRA & IRA-TO-EMPLOYER PLAN TRANSFERS:** As discussed on our call, moving money out of your traditional IRA and SIMPLE IRA accounts allow you to make tax-efficient back-door Roth IRA contributions. (Back-door Roth IRA contributions are explained in the following bullet point). Without transferring tax-deferred dollars from IRA accounts (traditional IRA, SIMPLE IRA, etc.), a back-door Roth IRA contribution would generate a tax bill.

  For Adam, if your 403(b) (or 401(a) or 457) accepts traditional IRA transfers, transfer your traditional IRA to your employer plan.

For Rachel, if your SIMPLE IRA is more than two years old, transfer your SIMPLE IRA to your new 401(k).



☐ **ANNUAL BACK-DOOR ROTH IRA**: Each year, contribute the maximum to a traditional IRA - $6,000 for Adam and $7,000 for Rachel in 2021. Do not claim a deduction for this contribution on your tax return. Then, convert that contribution to your Roth IRA. Invest the conversion for long-term growth using low-cost stock funds. To take advantage of future tax planning opportunities, avoid rolling over your workplace retirement plans to a traditional/rollover IRA. Learn more here.

☐ **NON-DEDUCTIBLE IRA CONTRIBUTIONS:** If Adam cannot transfer his traditional IRAs to any of his employer-provided retirement plans, he will not be able to make back-door Roth IRA contributions tax-efficiently. Therefore, his next best option is making non-deductible contributions to a traditional IRA.

Open a new traditional IRA to receive these non-deductible contributions. Opening a new traditional IRA exclusively for non-deductible contributions can make keeping track of the basis easier. This is helpful for future tax planning.

Contribute the maximum ($6,000 for 2021) to this new traditional IRA annually to take advantage of tax-deferred growth provided by these accounts. Report non-deductible contributions on Form 8606 annually.

If Rachel does not open a 401(k) – and thus cannot transfer her SIMPLE IRA and traditional IRA to that 401(k) – she should do the same: open a new traditional IRA to make non-deductible contributions. Contribute the maximum ($7,000 for 2021) to this new traditional IRA annually. Report non-deductible contributions on Form 8606.

Tax Planning

☐ **COLORADO 529 COLLEGE SAVINGS PLAN:** Contributions to a 529 college savings plan are deductible from state income taxes. You can calculate your tax savings here. With college in just three years, there is limited opportunity for investment growth. Therefore, contribute any amount you anticipate spending in the near term to simply qualify for the state tax savings on the contribution.

Tax-Efficient Charitable Giving

You have a tax planning opportunity in light of the combination of:

1. $10,000 in annual charitable giving,
2. that you are on the cusp on itemizing or taking the standard deduction annually, and
3. the high-fee, tax-inefficient appreciated securities you need to liquidate.

Contributing appreciated securities to a donor-advised fund in alternating years when not taking the standard deduction can generate greater tax savings than the alternative. Learn more here.

☐ **DONOR ADVISED FUND (DAF) CONTRIBUTIONS IN ALTERNATING YEARS:** Instead of contributing cash to charities directly, contribute appreciated securities to a Donor Advised Fund from your taxable account. Then, make grants to your charities of choice from your DAF. (This strategy generates greater tax savings than donating cash to charities outright by eliminating the tax liability of the capital gain on the appreciated positions.) You should be able to access a cost-competitive DAF through TD Ameritrade with Schwab Charitable.

Use the strategy above in combination with "bunching." Since you are on the threshold of itemizing your deductions annually, consider doubling your charitable contributions every other year – so long as the size of your donation does not drop you into a lower tax bracket. Next year, take the standard deduction. The strategy of itemizing when making larger charitable deductions every other year can generate greater tax savings than the alternative.

In your first year of executing this strategy, contributions to the DAF should be those positions with embedded gains in your taxable account that are a poor fit – those with high fees and are tax-inefficient. In later years, prioritize donating securities with the highest (%) embedded gain.

BUNCHING TAX DEDUCTIONS IN ALTERNATING YEARS

	2021 TAX YEAR	2022 TAX YEAR
BUNCHING DEDUCTIONS Deductions over Two Years: $61,100	$20,000 Charitable Contributions $10,000 Property Tax Deduction $6,000 Misc. Itemized Deductions $36,000 in Itemized Deduction	$25,100 Standard Deduction
NO TAX PLANNING Deductions over Two Years: $52,000	$10,000 Charitable Contributions $10,000 Property Tax Deduction $6,000 Misc. Itemized Deductions $26,000 in Itemized Deduction	$10,000 Charitable Contributions $10,000 Property Tax Deduction $6,000 Misc. Itemized Deductions $26,000 in Itemized Deduction

Investments

- ☐ **ALLOCATION:** During our call, we discussed the strategy of starting retirement with a lower equity allocation – to be increased later. This mitigates sequence risk: the risk that poor investment returns show up at the beginning of retirement, impacting the long-term sustainability of your investment portfolio. Learn more here.

  That research shows that the optimal stock/bond mix at the outset of retirement is 30%. Over the next 12 years, decrease your stocks to achieve this 30% target. Start with a 60/40 stock/bond mix today. Your target portfolio today is:

  - The U.S. stock default is a total stock market index fund ~35%
    - Vanguard Total Stock Market Index Fund ETF (VTI)
  - The international stock default is a total international stock index fund ~25%
    - Vanguard Total International Stock Index Fund ETF (VXUS)
  - The bond default is an intermediate-term Treasury fund ~40%
    - Vanguard Intermediate-Term Treasury ETF (VGIT)

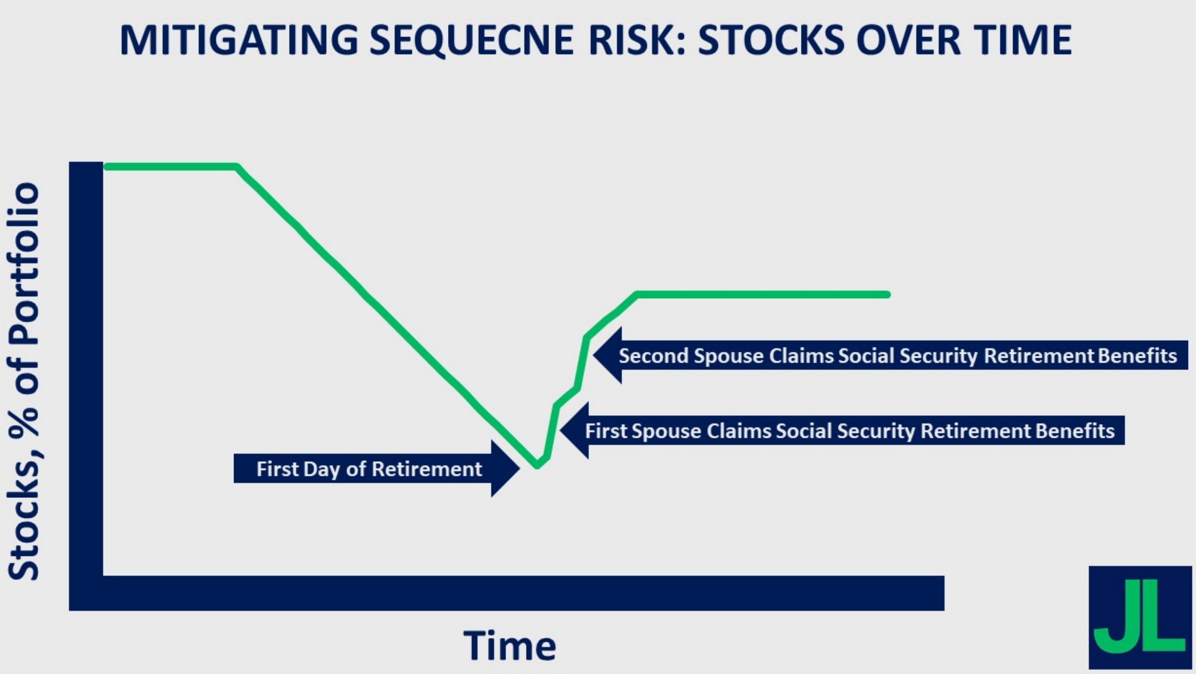
  Decrease your stocks by 2.5% each year, replacing stock funds with the Vanguard Intermediate-Term Treasury ETF (VGIT). In four years, your target portfolio is:

    - Vanguard Total Stock Market Index Fund ETF (VTI) ~30%
    - Vanguard Total International Stock Index Fund ETF (VXUS) ~20%
    - Vanguard Intermediate-Term Treasury ETF (VGIT) ~50%

Once you reach a 50/50 stock/bond mix, do not further increase the percent to VGIT. Instead, add 2.5% per year to the Vanguard Short-Term Inflation-Protected Securities Index ETF (VTIP). On the first day of retirement, your target 30/70 portfolio is:

- Vanguard Total Stock Market Index Fund ETF (VTI) ~17.5%
- Vanguard Total International Stock Index Fund ETF (VXUS) ~12.5%
- Vanguard Intermediate-Term Treasury ETF (VGIT) ~50%
- Vanguard Short-Term Inflation-Protected Securities Index ETF (VTIP) ~20%

As you move past your retirement date, increase your stock allocation by 2% per year. You can target a final stock allocation of as much as 70%. First, decrease the Vanguard Short-Term Inflation-Protected Securities Index ETF (VTIP) in favor of the stock funds. Then, decrease your allocation to the Vanguard Intermediate-Term Treasury ETF (VGIT). Once you receive Social Security benefits, you should re-visit your stock/bond mix – likely accelerating the process of increasing your stock funds.



☐ **TRADING:** Limit your trading risk by using "limit orders" when buying and selling stocks and Exchange-Traded Funds (ETFs). [Learn more by reading this paper from Vanguard].

☐ **REBALANCING:** Review your portfolio annually, and rebalance if necessary. [Learn more here].

☐ **INVESTMENT POLICY STATEMENT (IPS):** Create an IPS to help hold you accountable for your investment strategy. [Learn more about Investment Policy Statements – and download a free template – here].

Liabilities

- ☐ **DEBT:** Pay off your debt – your mortgage and your $40,000 auto loan. After you have maxed out your retirement account contributions for the year, direct excess cash towards paying down debt.

  It may make sense for investors with 100% stock allocations to leverage their investment portfolio by *not* pre-paying their debt. However, for investors with relatively less aggressive allocations (such as yourself), holding debt means settling for a smaller investment return while bearing the same amount of risk as their 100% stock allocation peers. Said simply: you are currently enduring the same risk for less return. That's why pre-paying debt can make sense for investors who *don't* have 100% stock allocations. To dig deep into this subject, read this post.

Estate Planning

- ☐ **BENEFICIARY DESIGNATIONS:** Review the beneficiary designations on your investment and retirement accounts, bank accounts, and life insurance policies to determine if they still reflect your goals.

- ☐ **REVIEW YOUR ESTATE DOCUMENTS:** Confirm that you have up-to-date Wills, Power of Attorneys, and Advanced Health Care Directives.

- ☐ **TRUSTED PARTIES REVIEW:** Review the executors and attorneys-in-fact in your estate planning documents. Do you still believe that they are still the right person for the job? If not, update your estate plan.

- ☐ **REVOCABLE LIVING TRUST:** Speak with your estate attorney about placing your home in a revocable living trust to avoid the expenses of probate.

- ☐ **SIDE LETTER:** Complete a Side Letter of Instruction listing professionals and account login information. Share this information securely with the appropriate parties (trustees, executor, attorneys-in-fact) via a password manager, such as LastPass or 1Password. Alternatively, store a hard copy of this information along with your estate planning documents. You can use this template. Learn more here.

- ☐ **GODCHLDREN PARENTS ESTATE PLANNING:** Have a conversation with the parents of your godchildren. A trust may be the right estate planning tool for their family. Setting up a trust for the benefit of the godchildren may be appropriate. The trust should be formed at both parents' death and be funded with a combination of life insurance and the parents' assets. The parents of your godchildren should speak with an estate attorney about this.

Insurance Planning

- ☐ **SUFFICIENT LIFE INSURANCE:** Life insurance can replace the lost income from the death of a loved one. You currently have $1MM of coverage on Adam, with $1.5MM on Rachel. Given your assets and the income that *each* of you provides to the household, you have sufficient coverage. You do not need to purchase additional insurance.

☐ **LONG-TERM DISABILITY INSURANCE (LTDi):** LTDi insurance replaces a part of your income when you cannot work from illness or injury. In a worst-case scenario, you are both eventually disabled. Therefore, at least the two of you in aggregate needs policies that can replace your household spending. Review your existing policies to confirm that they have the following features:

- be inflation-adjusted, having a cost-of-living adjustment (COLA) rider,
- have an "own occupation" to age 65 clause to pay you if you can work, but not in your industry, and
- include a partial disability provision.

☐ **HIGH-DEDUCTIBLE HEALTH PLAN (HDHP):** Continue to take advantage of a Health Savings Account (HSA) eligible HDHP – so long as it meets your health insurance goals. The lower premiums of an HDHP can save you money. Learn more here.

☐ **SHOP FOR LONG-TERM CARE INSURANCE (LTCi):** As discussed on our call, with $3MM+ in assets, you have sufficient assets to self-insure for the expense of long-term care. However, you may wish to shop for LTCi policies. Look at policies providing $500,000 in benefits for *each* of you. Consider if you are willing to pay the cost of coverage. Relative to your other financial planning To-Do's, this is a low priority. Consider only those insurance companies with the highest credit rating.

☐ **UMBRELLA INSURANCE INCREASE:** Great job getting a $2MM umbrella insurance policy! Umbrella insurance increases the liability coverage of your auto and homeowner's insurance. Increase your umbrella policy coverage to $6MM to better protect your net worth *and* your future income. Remember to maintain your underlying liability coverages at $300,000 – or the amount required by your umbrella policy – on your various policies (auto insurance, etc.). Make sure this $6MM is per *occurrence*, and *not* just an annual aggregate limit.

☐ **HOMEOWNER'S INSURANCE:** To save money, consider increasing the deductible on your homeowner's insurance policy. Learn about optimizing your homeowner's insurance here.

- "Additional Coverages:" Consider stripping additional coverages to save money via self-insurance, such as jewelry and fur endorsements, and sewer drain back up.

☐ **FLOOD INSURANCE:** A homeowner's policy alone won't cover all potential damage to your home. Flood insurance can help protect the value of your home. You may be able to purchase a separate flood insurance policy through the National Flood Insurance Program. If a flood risk is low in your area, then the policy will be relatively inexpensive. This makes insuring your expensive home worth the price.

☐ **AUTO INSURANCE:** To save money, consider declining Comprehensive & Collision coverage on your automobile policy. You have sufficient assets to self-insure. At the very least, consider raising your deductible to the maximum allowable. You can learn more about optimizing your auto insurance coverage here.

- Underinsured/Uninsured: Opt for the highest limit on Underinsured/Uninsured coverage.
- "Additional Coverages:" Consider stripping additional coverages to save money via self-insurance, such as rental car reimbursement, or windshield glass replacement.

☐ **ROADSIDE ASSISTANCE:** To keep your auto insurance cost lower, only purchase roadside assistance through a provider that is not your automobile insurance company, such as AAA. Using roadside assistance provided by your insurance company may count as an at-fault claim.

☐ **RE-SHOP YOUR POLICIES:** Re-shop property and casualty (auto, homeowners, umbrella) insurance policies at least every three years to ensure you are paying a competitive rate.

Cyber Security

☐ **PASSWORD MANAGER:** Store account logins and other sensitive information in a password manager. Consider LastPass, Dashlane, or 1Password. Learn more here. Do not store your passwords unsecurely, such as with an unencrypted spreadsheet, unencrypted Word document, or written down or printed on paper held outside of a physical safe.

☐ **FREEZE YOUR CREDIT:** To protect against identity theft, freeze your credit with all three credit agencies. Learn more here.

☐ **TWO-FACTOR AUTHENTICATION (2FA):** If available, enable 2FA with the various financial institutions you use: your bank, your investment custodian, for example. Learn more here.

• • •

This covers most of our discussion and a little more. Your urgent projects are:

- your partially uninsured net worth (solved by increasing umbrella insurance coverage), and
- incomplete estate planning documents (solved by working with an estate attorney).

Please send me an email at hello@JonLuskin.com if you have any questions.

Good luck!

Best regards,

Jon Luskin, CFP®