Jon Luskin, CFP®

Hourly Advice for Do-It-Yourself Investors

September 22nd, 2021

Dear Arun,

Thank you for using our portfolio review services. We discussed several topics on our recent call.

You are 50, married to Anita (46), with two children, Ria (19) and Gita (14). In Corporate Management at Biotech Shmayotech, you earn $420,000 annually. At Big Pharma, Anita earns $400,000. You estimate your living expenses at $150,000 per year – excluding taxes.

You have $3.5MM in investment accounts. You have an additional $500,000+ across two 529 college savings accounts. You own your home ($1.2MM), with a $268,000 mortgage.

You are looking for help with retirement planning. Here are your financial planning *To-Dos* in light of your goals from our call:

- ☐ **TRACKING SPENDING:** Track your spending. Consider Mint, YNAB, or your own spreadsheet for greater flexibility. Tracking your spending can help you better estimate your future expenses in retirement. Learn more here.

- ☐ **RAINY DAY FUND:** You have $506,000+ in cash savings. Continue maintaining at least six months of living expenses in cash as your rainy day fund. To be conservative, holding up to one year in cash is also appropriate. Learn more here.

  Earn a higher interest rate with a high-yield online savings account.

  For cash above that rainy day fund amount and anything needed for your pending home remodel, pre-pay your mortgage – as discussed in the *Liabilities* section.

  Stay within the FDIC insurance limit for each account: $250,000 for individual accounts, and $500,000 for joint accounts.

Contributing to Tax-Advantaged Investment Accounts

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

- ☐ **TAX PROFESSIONAL:** Confer with your tax professional before moving forward on the below.

- ☐ **HIGH-DEDUCTIBLE HEALTH PLAN (HDHP) HEALTH SAVINGS ACCOUNT (HSA):** As long as you are enrolled in an HSA-eligible HDHP, contribute the maximum to your HSA annually: $7,200 for 2021.

When switching to an HSA-eligible high-deductible health plan (HDHP), be sure to take advantage of the 12-month rule: make the full 2021 contribution as long as you have the HDHP for the full month of December *and* maintain an HDHP through the end of 2022.

In your HSA, invest in low-cost stock funds. Pay for medical expenses with cash, letting HSA investments grow tax-deferred. Save all receipts for qualified medical expenses. Learn more here.

☐ **MASSACHUSETS COLLEGE SAVINGS PLAN:** In the absence of plans to fully fund an Ivy League education, and/or graduate schools, consider your 529 plans fully funded. No further account contributions are necessary.

As discussed on our call, you may wish to make further contributions only to the extent of state tax savings. Contribute to a new MA 529 savings plan for the state tax deduction: $2,000 to qualify for the full deduction (for married persons filing jointly). Invest using the Age-Based Portfolio (Fidelity Index Funds).

If you end up overfunding the account, you can update the account beneficiary to a long list of family members, including future grandchildren. Learn more here.

Your Retirement Plan at Work

☐ **ARUN'S TRADITIONAL 401(K) CONTRIBUTIONS**: You (Arun) should continue to contribute the maximum annually to your traditional 401(k)s: $19,500 + your $6,500 catch-up) for 2021.

Contributing to your employer-provided retirement plans is appropriate in light of the low-cost investment options available.

Contributing to a traditional (tax-deferred) over Roth (tax-free) account during your working years allows you to save taxes in your higher tax bracket today. When in a lower tax bracket in retirement, you can withdraw from your traditional account. Paying fewer taxes when in a higher tax bracket – while increasing income in lower tax brackets – can help decrease your lifetime tax bill.

Lastly, with the potential to make back-door Roth IRA contributions (of $13,000) and mega-back door Roth contributions of up to ~$30,500 (discussed next), taking advantage of traditional contributions where possible makes sense.

☐ **ANITA'S TRADITIONAL 401(K) CONTRIBUTIONS**: No information on Anita's 401(k) fees was provided before or during our call.

Therefore, Anita should at least contribute the amount to her 401(k) that qualifies her for the full employer matching contribution. Past that amount, Anita should only contribute to her 401(k) if the all-in fees for Anita's 401(k) are reasonable: 0.5% or less, when adding together both mutual fund expense ratios *and* any administrative fees that may be charged. If the all-in fees for Anita's 401(k) are less than 0.5%, Anita should make the full traditional 401(k) contribution ($19,500 for 2021). This contribution is in addition to any after-tax contributions, discussed next.

If the all-in fees are greater than 0.5%, contribute only enough to Anita's 401(k) to qualify for the full employer match. If there is no employer match – and the fees are greater than 0.5%, do not contribute to the 401(k).

☐ **MEGA BACK-DOOR ROTH 401(K) RESEARCH AT YOUR CURRENT EMPLOYERS:** A mega back-door Roth utilizes your retirement plan's unused contribution limit ($58,000 *each* + your $6,500 catch-up in 2021) to make a Roth contribution. Not all plans offer this feature. Your plan needs 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. (As discussed on our call, this feature is available with your (Arun) current employer-provided retirement plan. You are not sure about Anita's workplace retirement plan.)

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 + $6,500 catch-up to your employer plan, contribute the maximum annually in voluntary after-tax dollars – up to $38,500, minus the amount of any employer contribution.

For you (Arun), that amount would be ~$30,000, given the employer contribution of ~$8,500. (The amount your employer contributes to your plan decreases the amount of voluntary after-tax dollars you can contribute to your workplace retirement plan.)

Voluntary After-Tax Contribution Limit = $38,500 – Employer (Profit-Sharing) Contribution

Convert 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. That's because extra contribution dollars:

- provide tax deferral;
- helps keep your income lower for longer for future tax planning, leaving more room in lower tax brackets to make partial Roth conversions and do tax-gain harvesting at the 0% long-term capital gains rate;
- allows you to qualify for other tax credits without hitting phaseouts;
- helps avoid stealth taxes – such as the Social Security tax torpedo; and
- permits more dollars to be converted to Roth dollars tax-free in the future.

2021 MEGA-BACK DOOR ROTH CONTRIBUTIONS

Traditional Employee Contribution; Tax-Deductible; Taxed at the Marginal Rate at Distribution

After-tax Employee Contribution; Not Deductible; Tax-Free at Distribution if Converted to Roth

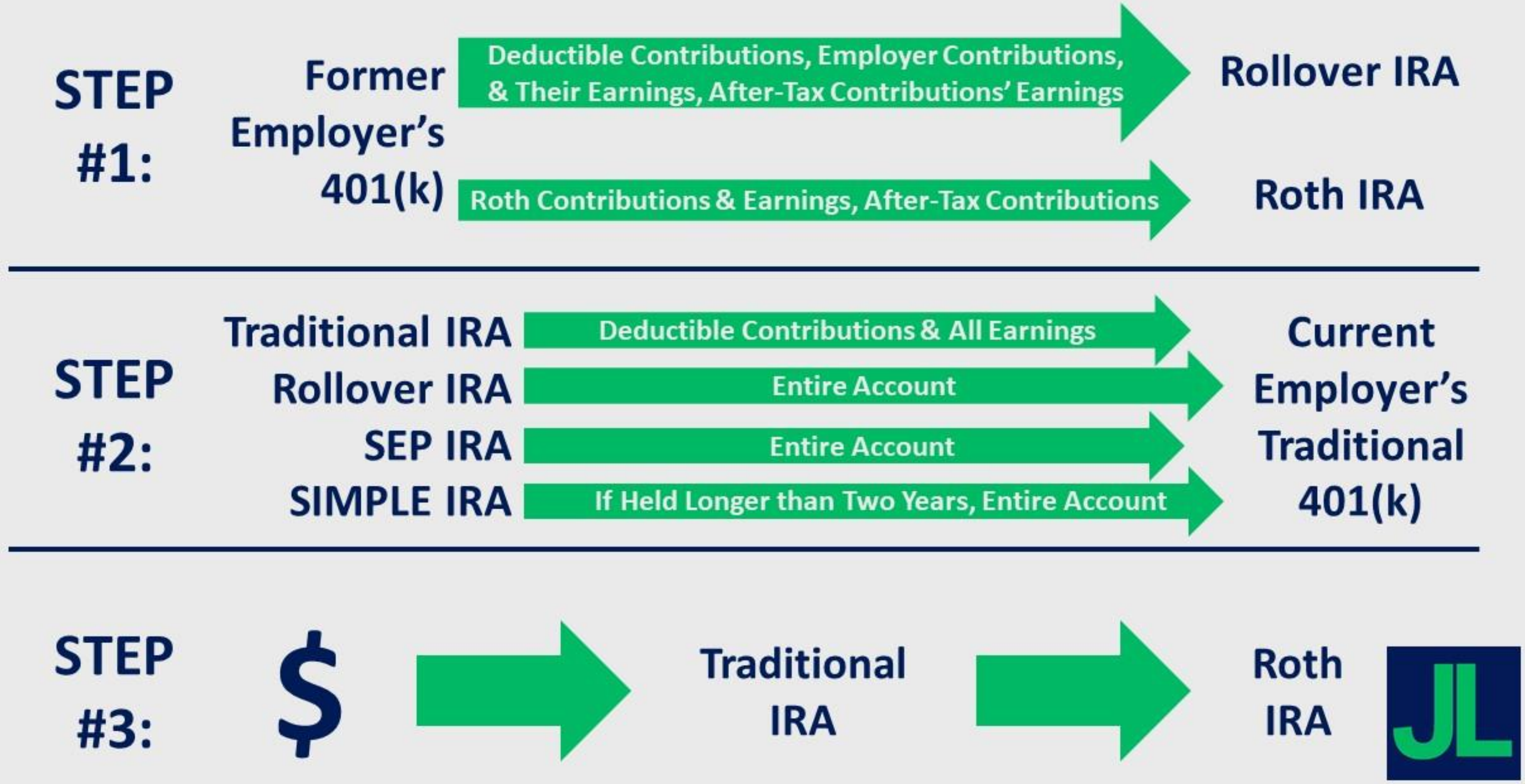
Employer Contribution; Taxed at the Marginal Rate at Distribution

Your IRA Accounts and Former Employer's Retirement Plans

- ☐ **RETIREMENT PLAN TRANSFERS:** During our call, we discussed a series of retirement account transfers. Below is a summary of that process. Following the summary are more details.
  - **Step #1 – 401(k) Rollover**: Roll those 401(k)s from former employer's containing after-tax dollars to your IRAs.
    - After-tax dollars and Roth dollars in your former employer's 401(k)s are rolled over to your Roth IRA.
    - Traditional dollars, employer (profit-sharing) contributions, and after-tax *earnings* are rolled over to your rollover IRA.
  - **Step #2 – IRA-to-401(k) Transfer**: Transfer tax-deferred IRA dollars to your current employer's 401(k).
    - This includes rollover IRAs, SIMPLE IRAs (if held longer than two years), SEP IRAs, and traditional IRA earnings and deductible contributions.
      - SIMPLE IRAs cannot be transferred within two years of opening without incurring a tax penalty. If you had a SIMPLE IRA opened within the last two years, wait to satisfy the two-year holding period to transfer that account.
    - Non-deductible contributions remain in your traditional IRA.
    - If your 401(k) does not accept IRA transfers, skip the third step. Instead, continue making non-deductible contributions to your traditional IRA.
    - Given the low fees of the Biotech Shmayotech 401(k), this transfer is appropriate. For Anita, she should only make this IRA-to-401(k) transfer if the all-in fees of her retirement plan at work (both mutual fund expense ratios and any administrative fees) are comparable to her IRA at Vanguard.
  - **Step #3 – Back-door Roth IRA contribution**
    - At this point, your traditional IRA should have only non-deductible contributions. All earnings and deductible contributions were transferred to your 401(k) in **Step #2**.
    - If you haven't already, make your non-deductible contribution to your traditional IRA for the year: $7,000 for Arun, and $6,000 for Anita.
    - Convert your traditional IRA to your Roth IRA.

Making *mega back-door Roth 401(k)* contributions is independent of making *back-door Roth IRA* contributions. Doing - or *not* doing the back-door Roth IRA or mega back-door Roth 401(k) does not impact your ability to do (or *not* do) either the mega back-door Roth 401(k) or back-door Roth IRA, respectively.

RETIREMENT PLANS TRANSFERS FOR BACK-DOOR ROTH IRAS



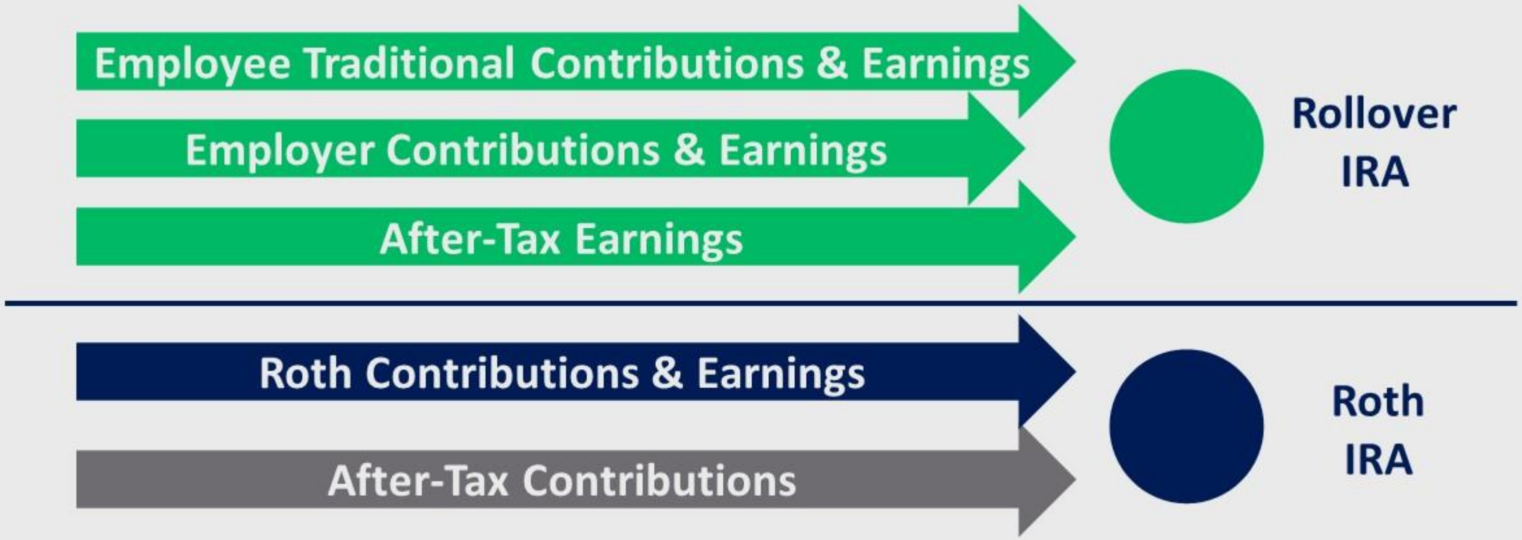
ROLL FORMER EMPLOYER'S 401(K)S CONTAINING AFTER-TAX DOLLARS TO YOUR IRAS: Qualifying distributions of after-tax dollars are distributed tax-free from your 401(k). However, earnings on after-tax dollars are taxable. You can convert after-tax dollars to Roth dollars. Converting after-tax dollars to Roth dollars makes all future growth tax-free.

To convert after-tax dollars in your old 401(k) to Roth dollars, roll your 401(k) to your IRAs. After-tax dollars and Roth dollars in your former employer's 401(k)s are rolled to your Roth IRA. Traditional dollars, employer (profit-sharing) contributions, and after-tax earnings are rolled to your rollover IRA. In the series of retirement plans rollovers and transfers summarized previously, do this IRA rollover step first.

Anita's old 401(k) from her former employer Teva *might* have after-tax dollars. (In the statement you provided, this information was unclear.)

You shared that you can contribute after-tax dollars to your current employer’s, Biotech Shmayotech's, 401(k). Therefore, Anita should consider this process now for her Teva 401(k). You can consider this when you leave your current employer at Biotech Shmayotech. (During our call, you shared that you are considering an offer at another company.)

FORMER EMPLOYER 401(K) ROLLOVER



Tax-Deferred Dollars; Qualifying Distributions Are Taxable at the Marginal Rate

After-tax Dollars of Non-deductible Contributions; Qualifying Distributions Are Tax-Free

Roth Contributions & Roth Earnings; Qualifying Distributions Are Tax-Free

☐ **YOUR (ARUN'S) IRA-TO-401(K) TRANSFER OF EARNINGS & DEDUCTIBLE CONTRIBUTIONS AND SUCCESSIVE BACK-DOOR ROTH IRA CONTRIBUTIONS:** Transferring money into your (Arun's) current employer's 401(k)s is appropriate considering the low-cost investments available in the 401(k) plan.

Transfer your rollover IRA to your 401(k). For your traditional IRA, make a ***partial*** transfer to your 401(k). Transfer only the traditional IRA earnings and deductible contributions to your 401(k) – and not the basis, the non-deductible contributions.

To calculate non-deductible contributions, reference form 8606 on your previous years' tax returns.

With the earnings and deductible contributions transferred out of the traditional IRA, you will be on track to make back-door Roth IRA contributions tax-efficiently. Convert the traditional IRA – now holding exclusively non-deductible contributions – into a Roth IRA. With the earnings transferred out of the traditional IRA, there will be no extra tax bill for making this conversion.

Do ***not*** roll over your workplace retirement plan back into a traditional/rollover IRA within the same calendar year. Learn more here.

Next year and every year thereafter you have sufficient earned income, make back-door Roth IRA contributions: contribute the maximum to this traditional IRA annually ($7,000 for 2021). Do not claim a deduction for these contributions on your tax return. Then, convert the contributions to the Roth IRA. Invest the conversions for long-term growth using low-cost stock funds.

If you have not yet made a non-deductible IRA contribution for the year to the traditional IRA, make that contribution and convert that amount to the Roth IRA as per the above.

TAX-DEFERRED IRA DOLLARS TO 401(K) TRANSFER

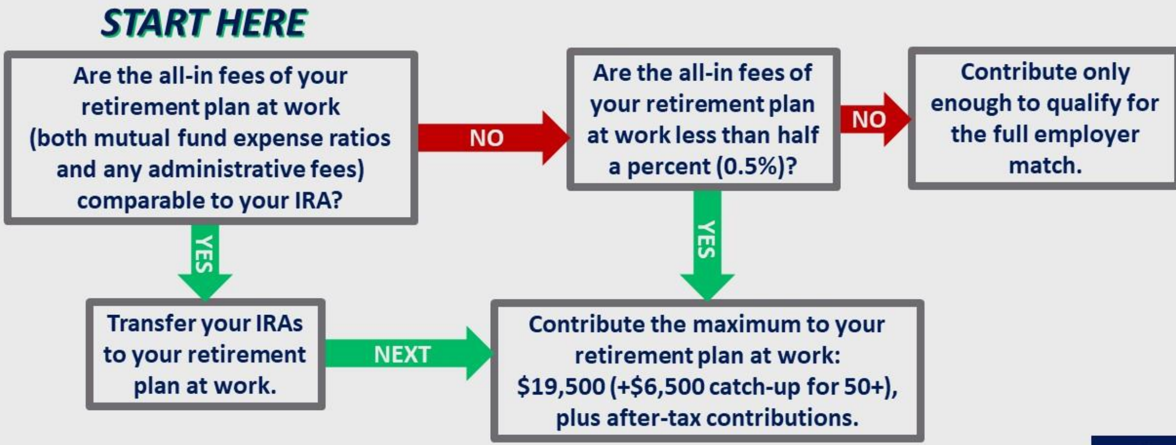
☐ **ANITA'S IRA-TO-401(K) TRANSFER AND SUCCESSIVE BACK-DOOR ROTH IRA CONTRIBUTIONS:** Transfers of IRAs may not be permitted by Anita's 401(k). If they are, *Anita should only proceed with a similar plan to yours outlined above if the investment options in her 401(k) are low-cost.* If the all-in fees in Anita's retirement plan are more than the fees she is paying in her IRAs at Vanguard today, do not make this transfer.

Note that a different threshold applies in the decision to transfer Anita's IRAs to her 401(k) – fees similar to IRAs – than the decision to contribute to her 401(k) above any amount that would qualify her for the employer match: less than 0.5%.

To summarize, if the all-in fees (both mutual fund expense ratios *and* any administrative fees that may be charged) for Anita's 401(k) are:

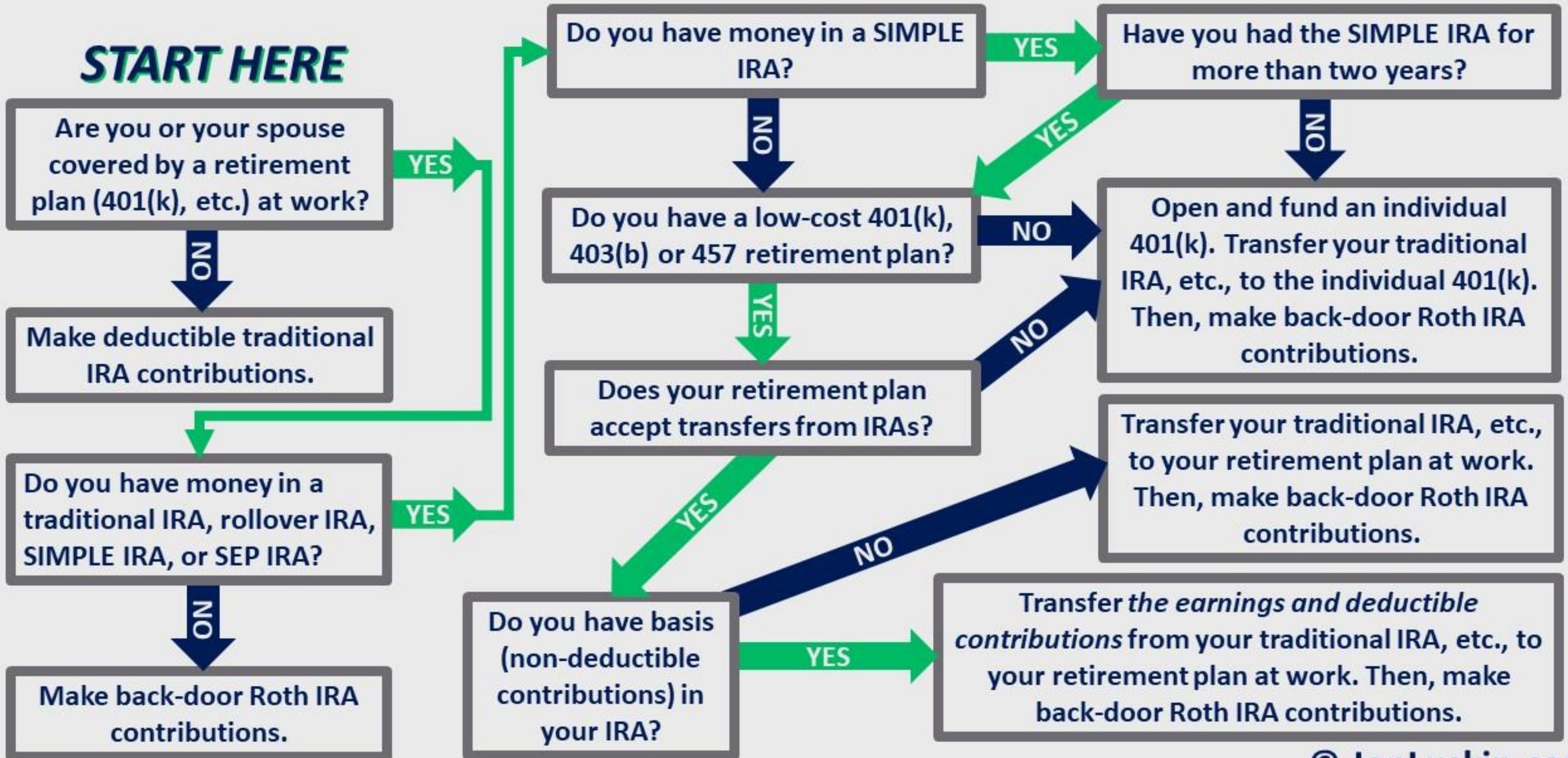
- comparable to your IRAs at Vanguard, then:
    - Contribute the maximum to Anita's 401(k), *and*
    - Transfer Anita's IRAs to Anita's 401(k) – if possible.
- 0.5% or less, but still more than your IRA at Vanguard:
    - Contribute the maximum to Anita's 401(k).
    - Do ***not*** transfer Anita's IRAs to Anita's 401(k).
- greater than 0.5%:
    - Contribute only enough to Anita's 401(k) to qualify for the full employer match.
    - Do ***not*** transfer Anita's IRAs to Anita's 401(k).

IRA-TO-401(K) PLAN TRANSFER & CONTRIBUTIONS



☐ **INDIVIDUAL 401(K) FOR IRA TRANSFERS**: If one of you cannot transfer the traditional IRA and rollover IRA to their current employer's 401(k) - (or if Anita should not, because of high plan fees), that person can create an individual 401(k) to accept tax-deferred IRA dollars. If so, that person will need to have a tiny amount of legitimate self-employment income (at least $10) for the year, contributing to that individual 401(k). Learn more here and here.

IRA CONTRIBUTIONS FOR HIGH EARNERS



Retirement Planning

- ☐ **RETIREMENT DISTRIBUTIONS:** While previous research suggested sustainable distribution rates of 3% over 40 years, more recent research suggests even lower rates over shorter periods: 2.4% over 30 years. You may achieve a higher distribution rate by being flexible with your spending – reducing distributions in the event of market corrections. Learn more here. Lastly, these historic and suggested distribution rates can serve as a guideline, *not* as a guarantee.

  During our call, we discussed you and Anita each retiring at 55 years old – you in 2026 and Anita in 2030. From now until 2030, we discussed putting the maximum into IRAs, 401(k)s, and HSAs each year. Assuming you both claim Social Security benefits at age 70, that plan puts you on track for a portfolio distribution rate at Anita's age of 70 at 2.0%. Also included in this calculation is your pension income at age 65. This 2.0% distribution rate puts you on a good track.

Investments

- ☐ **LOW-COST INVESTING:** You're doing a great job by mainly using low-cost funds to invest! That's important because academic research shows that sticking with a low-cost investment plan is key to investment success.

- ☐ **529 COLLEGE SAVINGS INVESTMENT CHOICES:** As discussed on our call, Ria's stock/bond mix is appropriate. To better ensure that more of your college funds saved to date will be there when you need them, switch Gita to the conservative age-based portfolio.

- ☐ **EMPLOYER STOCK:** Sell your employer stock as soon as it is vested. This includes selling your current holdings. Selling your employer's RSUs diversifies risk to your net worth away from the risk to your income: your employer.

- ☐ **EMPLOYER STOCK OPTIONS:** For the same reason above, exercise and sell all Bluebird and Biotech Shmayotech options/stock as soon as possible.

- ☐ **EMPLOYEE STOCK PURCHASE PLAN (ESPP):** Fully participate in your ESPP annually: $25,000. Buy at a discount and sell the position as soon as possible.

- ☐ **ALLOCATION**: We discussed a 50% stock and 50% bond portfolio. This stock/bond mix is appropriate given your high risk tolerance (having made no changes to your portfolio from the corona crash), ample savings, and timeline to portfolio distribution: ~9 years.

  For a 50/50 stock/bond model portfolio, see the below:
    - The U.S. stock default is a total stock market index fund – 30%
        - Vanguard Total Stock Market Index Fund (VTI/VTSAX)
    - The international stock default is a total international stock index fund – 20%
        - Vanguard Total International Stock Index Fund (VXUS/VTIAX)
    - The bond default is an intermediate-term Treasury fund – 50%

- Vanguard Intermediate-Term Treasury Fund (VGIT/VSIGX)

Each year between now and Anita's retirement in 2030, decrease your stock allocation by ~2%. Add the Vanguard Short-Term Inflation-Protected Securities Index (VTIP/VTAPX) instead. On the first day of Anita's retirement, your target allocation is:

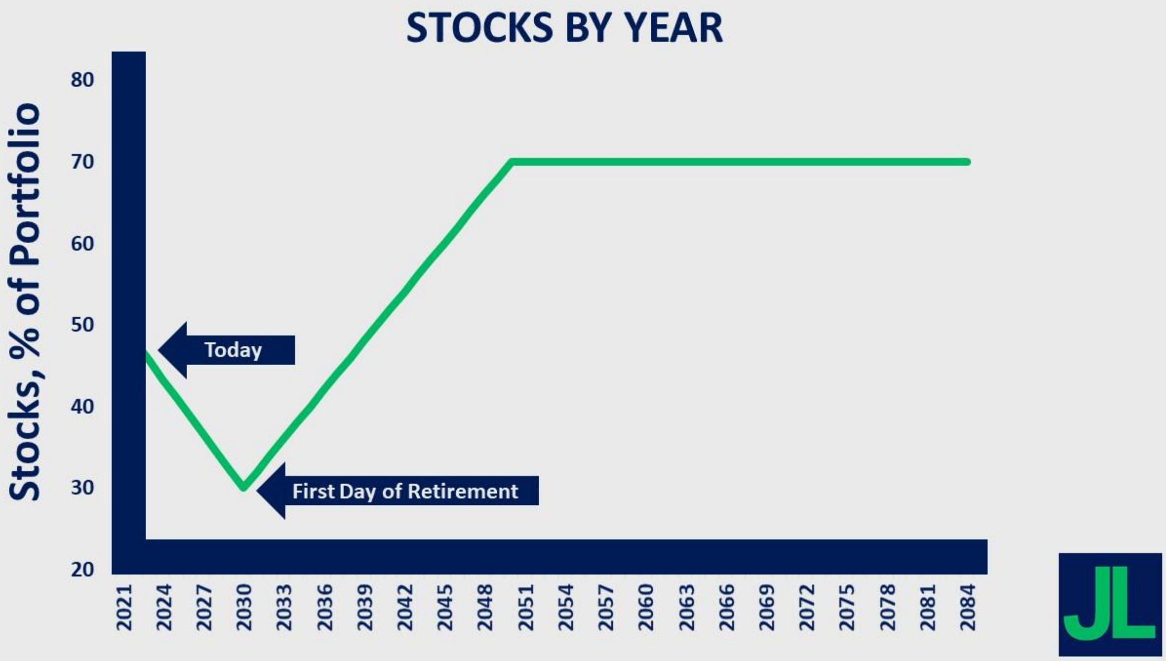
- Vanguard Total Stock Market Index Fund (VTI/VTSAX) ~17%
- Vanguard Total International Stock Index Fund (VXUS/VTIAX) ~13%
- Vanguard Intermediate-Term Treasury Fund (VGIT/VSIGX) ~50%
- Vanguard Short-Term Inflation-Protected Securities Fund (VTIP/VTAPX) ~20%

Following Anita's retirement, increase your stocks by 2%/year until they make up 60% of your portfolio. (A final 70/30 mix is also appropriate.) In decreasing your bonds, 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 fund.

Your final stock/bond mix is below:

- Vanguard Total Stock Market Index Fund ~35%
- Vanguard Total International Stock Index Fund ~25%
- Vanguard Intermediate-Term Treasury ~40%

The strategy of starting retirement with a lower equity allocation – to be increased later – 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.



☐ **LIMITED EMPLOYER PLAN INVESTMENT OPTIONS:** Given limited investment options in your 401(k), using an intermediate-term Treasury fund or short-term TIPS fund may not be possible. Therefore, substituting a low-cost total market bond index fund like the Vanguard Total Bond Market Index or the Fidelity® U.S. Bond Index Fund – is appropriate.

Many employer plans may not offer a total U.S. stock market fund. Instead, they may either offer any combination of an S&P 500 index, large-cap fund, extended market fund, and small and mid-cap funds. You can replicate a total market fund by piecing together these narrower funds in the appropriate proportions. Learn more here.

Similarly, employer retirement plans may not offer a total international fund. Instead, the plan may offer an international developed fund and an emerging markets fund. Or, the plan may simply offer a developed market fund. If so, hold $1 of a low-cost emerging market fund for every three dollars of a low-cost developed market index fund to approximate a total ex-US fund.

If no low-cost emerging market fund is available in your 401(k), this can be held in your Roth IRA. You can use the Vanguard Emerging Markets Stock Index Fund (VEMAX/VWO). Use your spreadsheet skills to achieve the target allocation.

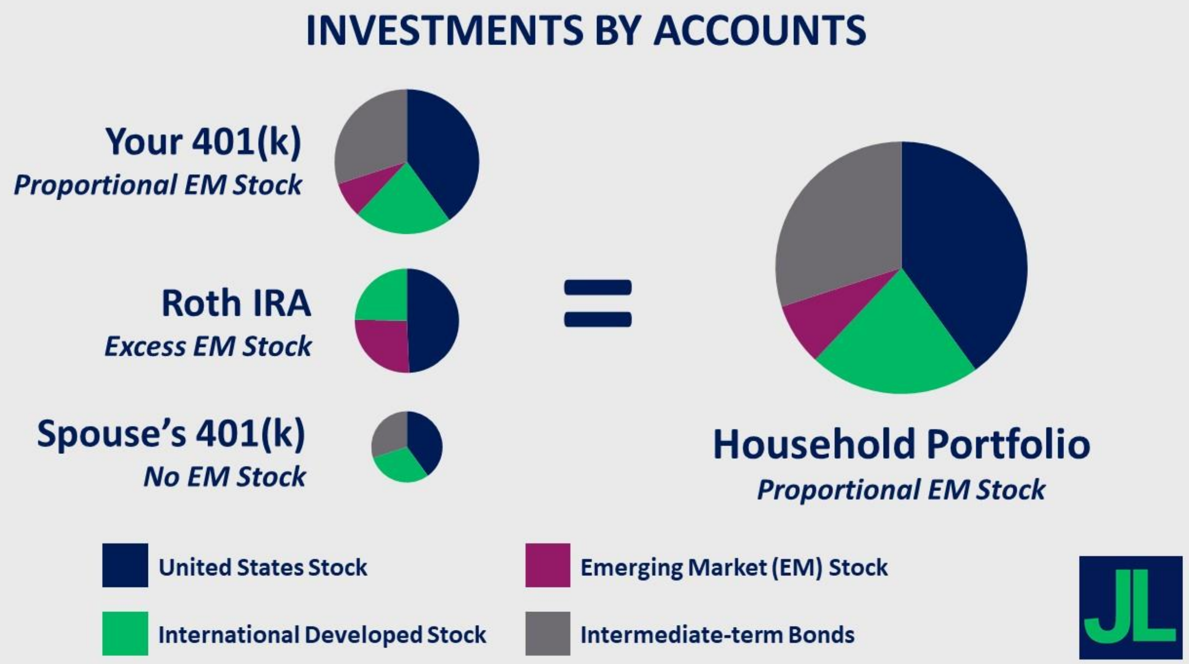
☐ **SIMPLIFYING YOUR INVESTMENTS:** You can sell all the investments in your tax-advantaged accounts today, re-investing the proceeds in the simple portfolio outlined above. As broadly-diversified and low-cost funds, it is appropriate to maintain the positions in your joint (taxable) Vanguard account to defer capital gains. Use your spreadsheet skills to rebalance around these existing funds.

☐ **CURRENT & FORMER EMPLOYER RETIREMENT PLANS:** As discussed on our call, the all-important expenses on your (Arun's) current and former employer's retirement plans are low-cost. Anita's former employer 401(k)s also have low-cost funds. This is great news.

However, problematic is that Anita's Bluebird 401(k) has some higher-fee funds selected. Keep in mind that you will need to move from the current investment choices in these employer plans to get you to your target 50/50 mix today. Currently, these accounts are mostly ~75% stocks.

As you mentioned on our call, you will roll Anita's former employer's 401(k)s into your IRAs. Remember to do this *before* any other account transfers. Rolling former employer retirement plans is the *first* step in your plan for making back-door Roth IRA contributions.

Since no employer retirement plan investment menus were provided before our call, I have not included an investment allocation for your employer's retirement plans. Remember to use only the low-cost index funds, and target the 50/50 mix for your household portfolio. Use your spreadsheet skills.



Sample investment allocation, not to scale.

- ☐ **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.

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

- ☐ **ASSET LOCATION:** You have $9,000+ in bonds (VBTLX) across your two Roth IRAs.

  To get the most out of the tax-free growth of your Roth and HSA accounts, hold only stock funds in these accounts. Do not hold bonds or cash in your HSA or Roth accounts. Learn more here.

  You will need to leverage your spreadsheets skills to balance your total household portfolio across your multiple accounts. This is a low-priority project.

Liabilities & Home Equity

- ☐ **MORTGAGE DEBT:** Pay off your mortgage. After maxing out your retirement account contributions for the year, direct excess cash towards paying down your mortgage. Use the extra cash in your bank accounts (not needed for your rainy day fund and your home improvement project) and the cash in your taxable brokerage account.

  It can 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 (those holding *any* amount of bonds), holding debt means settling for a smaller investment return while bearing the same amount of risk as their 100% stock allocation peers.

Said simply: holding debt while investing in bonds means 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. Learn more here.

Estate Planning

- ☐ **ESTATE DOCUMENTS:** Work with an estate attorney to create Wills, Power of Attorneys, and Advanced Health Care Directives. An estate attorney can help you determine if a trust is the right estate planning tool for your situation.

- ☐ **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.

- ☐ **EMERGENCY LETTER / SIDE LETTER:** Complete a Side Letter of Instruction listing professionals and account login information. Share this information securely with your spouse and your trusted 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.

Insurance Planning

- ☐ **SELF-INSURING LIFE INSURANCE**: Life insurance can replace the lost income from the death of a loved one. During our call, you shared that you have a $1MM policy on yourself, ending in 2027. You believe that Anita has a similar policy for $500,000 in coverage. Your employers provide *each* of you with $600,000 in coverage.

  Each of you makes more than roughly your household spending. Therefore, you do not need to purchase additional life insurance. You have sufficient assets to self-insure.

- ☐ **SHORT-TERM DISABILITY INSURANCE (STDi)**: An emergency fund of six months of living expenses helps protect you from a short-term disability. With six months of living expenses saved as cash, you would not need to purchase STDi. You could self-insure.

- ☐ **LONG-TERM DISABILITY INSURANCE (LTDi):** LTDi replaces some of your income when you cannot work from illness or injury.

  Many workplace-provided disability insurance policies have an *any occupation* definition after 24 months of benefits. In a worst-case scenario, this can mean having only two years of benefit payments. Learn more here.

  Review your employer-provided disability insurance policies for this – and any other shortcomings. If appropriate, work with a disability insurance agent to determine if you can purchase a private policy.

Purchase *at least* enough coverage to cover your essential expenses. Tracking your spending will help you better determine the exact amount of coverage you need. Any long-term disability insurance policy should:

- be inflation-adjusted, having a cost-of-living adjustment (COLA) rider (less critical for you given your retirement timeline),
- 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.

Unfortunately, a high-quality private long-term disability insurance policy will not be inexpensive. You can save money on a policy by opting for a larger deductible and making annual payments – instead of monthly.

☐ **HIGH-DEDUCTIBLE HEALTH PLAN (HDHP) AT OPEN ENROLLMENT:** At open enrollment, select a health insurance plan that meets your health goals. Consider a Health Savings Account (HSA) eligible High-Deductible Health Plan (HDHP). Only opt for an HSA-eligible HDHP if it meets your health insurance goals. The lower premiums of an HDHP can save you money. Learn more here.

☐ **SELF-INSURING FOR LONG-TERM CARE INSURANCE:** You have more than enough assets to self-insure for the cost of long-term care. You do not need to purchase long-term care insurance.

☐ **UMBRELLA INSURANCE PURCHASE:** Umbrella insurance increases the liability coverage of your auto, and homeowners' insurance. Purchase an umbrella policy for at least $3MM to cover any claims against you that may exceed your underlying policies' insurance (auto insurance, etc.). Consider up to $7MM in coverage – the value of your income streams over the next ten years. You will need to increase the liability coverage to $300,000 on your underlying policies – or the amount required by your umbrella policy. Make sure this increased coverage amount is per *occurrence*, and *not* just an annual aggregate limit.

When shopping for umbrella coverage, start with your existing auto and homeowner's insurance provider. They will likely give you a better rate for purchasing multiple policies.

☐ **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 AND WINDSTORM INSURANCE:** A homeowners policy alone won't cover all potential hurricane damage to your home. Flood insurance and windstorm insurance can help protect the value of your home. Purchase flood insurance and windstorm insurance.

☐ **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. Learn more here.

- Underinsured/Uninsured: Opt for the highest 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. Use complex passwords, those that combine upper- and lower-case letters, numbers, and special characters. Do not reference personal information in your passwords (children's birthdays, wedding anniversary, etc.) or any word found in the dictionary.

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.

☐ **VIRTUAL PRIVATE NETWORK (VPN):** Install a VPN on all your devices (computer, cell phone, tablet, etc.), especially those you use to access financial accounts. It almost always makes sense to leave your VPN on all the time. Learn more here.

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This covers most of our discussion and more. Contributing the maximum to your tax-advantaged investment accounts each year will put you on a great track.

Your urgent projects are:

- re-allocating your portfolio to a more conservative allocation given your retirement timeline,
- your uninsured net worth (solved with the placement of an umbrella policy),

- your uninsured future earnings (solved with the placement of a robust, private disability insurance policy), and
- 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®

P.S. You can sign up to receive new blog posts on investing and financial planning using this link.

Also, be sure to check out *Bogleheads Live*, where I ask your questions to subject matter experts live. Get the dates and times for the next *Bogleheads® Live* by following the John C. Bogle Center for Financial Literacy (@bogleheads) on Twitter.