Client: Steve & Melissa Smith
Date: December 5, 2021
Purpose: Summary and Recommendations

ModelWealth

Highlights

1. **Your Retirement Math Looks Terrific!**
    a. In retirement, we believe you could spend <u>today's feel</u> of $120,000 per year...
    b. While collecting pre-tax total retirement income equal to $128,676 per year (today's dollars).
    c. That's the sum of Melissa's pension ($90,936 per year) plus Steve's Social Security ($37,740 per year), both of which are expressed in today's dollars and will be inflation-adjusted.
    d. Even at 20% average tax rates, you're on pace to collect today's feel of $102,940 ($128,676 x 0.80).
    e. The shortfall of $17,059 would come from your portfolio.
    f. Continuing with the 20% tax assumption, you'd need to withdraw $21,324 on a pre-tax basis from your portfolio ($17,059 divided by 0.80).
    g. Applying the "4 percent rule" of portfolio spending, you'd need <u>today's feel</u> of $533,094 at the start of your retirement ($21,324 divided by 0.04).
    h. Today… 14 years ahead of that… you have $559,929.
    i. And you're contributing a total of $27,485 per year across Melissa's 403(b) plan ($8,000 per year), Steve's 6 percent employee contributions to his 401(k) plan ($9,743), and Steve's 6 percent employer match ($9,743).
    j. Assuming your current value of $559,929, your ongoing contribution amounts, and a +4 percent inflation-adjusted average annual return, you will accumulate today's feel of $1.49 million after 14 years.
    k. Among other things, this added flexibility could allow you to spend more in retirement, spend more money today, retire sooner than planned, invest more conservatively, reduce contributions to retirement accounts during the kids' college years, and/or leave a greater financial legacy to your heirs.

2. **Life Insurance Analysis**
    a. This is perhaps the most critical component to your plan.
    b. We recommend you consider 15-year term life insurance policies for $750,000.
    c. These would complement your existing $1 million term policies that expire in 2031.
    d. When shopping such coverage at www.havenlife.com, these would cost roughly $75 per month for Melissa and $120 per month for Steve (assuming you're both in "good" health).
    e. However, it would be prudent to shop around to ensure you get the best balance of coverage, insurance company rating, and cost.

3. **Move Melissa's 403(b) plan from MetLife to Vanguard**
    a. Melissa's 403(b) is invested in an expensive variable annuity through MetLife.
    b. While it may not be the most cost-effective approach, we understand her preference to pay the penalty and cut ties with MetLife.
    c. We recommend she transfer her 403(b) plan to Vanguard and invest in Vanguard Target Retirement 2035 Fund.

4. **Steve's 401(k) Plan**
    a. Speaking of the Vanguard Target Retirement 2035 fund…
    b. Steve owns this inside his 401(k) plan and we agree that it's the very best choice for him.
    c. Well done, Steve!
    d. Note that this fund is classified as a "trust," which simply means it's only available inside of 401(k) plans and is not available for individual purchases outside of such plans.
    e. Regardless, this portfolio is likely to be an almost perfect match to the retail Vanguard Target Retirement 2035 Fund.

5. **Risk and Reward**
    a. You should understand the historical risk and returns of your target 70/30 allocation.
    b. Click here for Vanguard's Risk and Reward table, which illustrates the past 90 years of average returns and volatility for cash and various allocations of stocks and bonds.
    c. Note that a 70/30 allocation (like that of your Vanguard Target Retirement 2035 Fund) has generated an average annual return of 9.29 percent during the 95-year period from 1926 through 2020.
    d. After inflation, however, this figure equated to a +6.25 percent average annual return above the rising cost of the life you'd have been saving for.
    e. This was significantly larger than the return of leaving your money in cash, which generated a +0.48 percent average annual return above inflation.
    f. However, the 70/30 allocation was accompanied by volatility, losing value in 23 of the last 95 calendar years.
    g. The table notes that a 70/30 allocation lost -28.16% (1973-1974), -26.50% (2000-2002), and -31.18% (2008-2009) during the last three major stock market crashes.
    h. If your $559,929 experienced a decline of -31.18%, you'd see a decline of -$174,586…
    i. Said another way, your $559,929 would fall to $385,343.
    j. Such allocations experienced massive growth in the years that followed, growing well above their pre-crash levels.
    k. Our recommendations assume you stick with your portfolio through such difficult times.

6. **529 Plans**
    a. We recommend you transfer your American Funds 529 plans from to New York's 529 Direct Plan.
    b. This can be done by opening an account at www.nysaves.org.
    c. It appears that you can both open your accounts and complete their Incoming Rollover Forms online.
    d. And we recommend you invest in their "Moderate Age-Based Option" funds.
    e. These are single portfolios that invest in diversified portfolios of underlying Vanguard mutual funds, prudent for your child's age, that become more conservative as college approaches.
    f. This New York plan is extremely low cost compared to your current American Funds 529 plan and offers New York state tax benefits as well.
    g. Meanwhile, your existing American Funds plan holds "A-share" mutual funds that charge up-front commissions.
    h. And you're invested in a single US Large Growth mutual fund for 13-, 11- and 9-year-old children.
    i. While that's a broad asset class that's performed quite well for the prior decade, we don't feel it's appropriate as a single holding for your children given their time horizon until college.

7. **Your Chase Mortgage**
    a. The 3.25 percent interest rate on your Chase mortgage appears to be higher than average for the time frame when you initiated it, but that's not uncommon for a large bank like Chase.
    b. Regardless, it would make little sense to refinance at this point, as rates have risen.

8. **Properly title various accounts for estate planning**
    a. The ABC Corp. ESOP specifically says there are no beneficiaries on file
    b. The Ally Bank account may not have beneficiaries on file.
    c. We recommend you speak with your attorney and confirm how these accounts should be titled.

9. **ABC Corp. Employee Stock Ownership Plan**
    a. You should call ABC Corp. to determine whether your shares are fully vested.
    b. And if they are not, ask how Steve's vesting schedule works.
    c. You should also inquire as to what Steve's "cost basis" is for the shares.
    d. Based on this information, you and your tax professional can determine if you should sell the stock
    e. The proceeds can then be added to either (1) your 529 plans or (2) a jointly titled investment account.

f. If the former, you might consider adding the entire proceeds to Rebecca's 529 plan because (1) she's the youngest and will stand to gain the most from tax-free compounding and (2) because you can move 529 assets to any beneficiary you choose.
g. If the latter, we recommend Vanguard Total World Stock Index Fund, either as an exchange-traded fund (symbol VT) or its open-end mutual fund (symbol VTWAX).

10. Summary

a. We are extremely grateful for your trust, cooperation, and patience!
b. Please don't hesitate to follow up if you have questions, concerns, or would like assistance with any of the above recommendations.

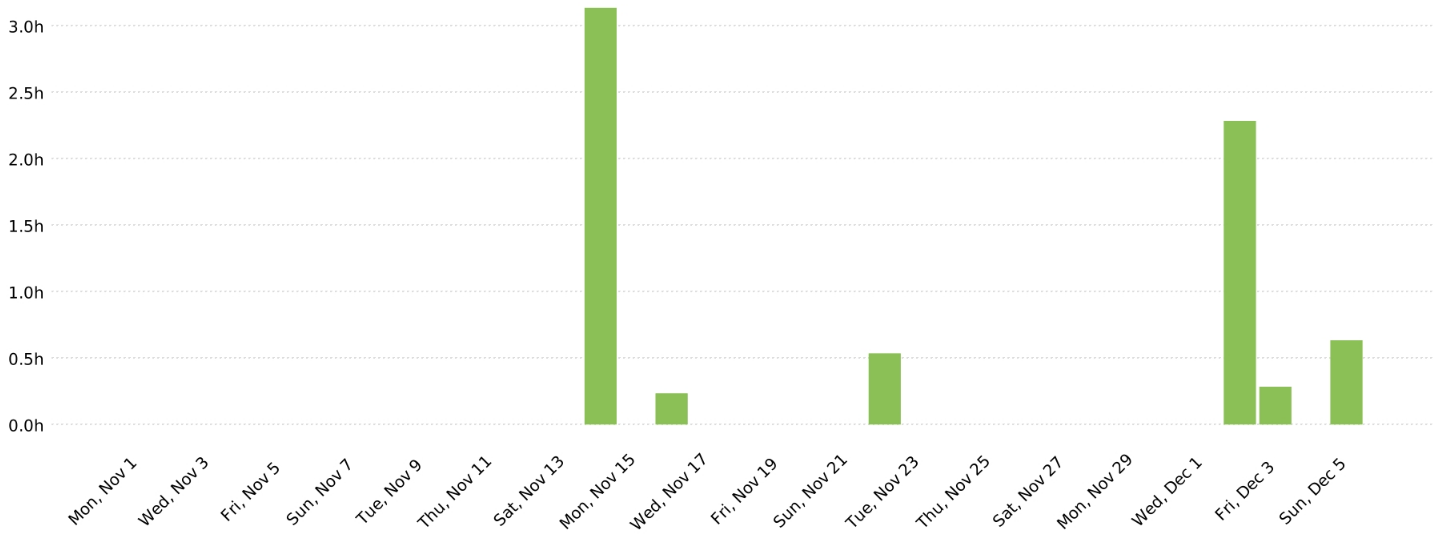
Sincerely,

Randy Bruns	Alex Offerman	Anna Thornburg
Randy Bruns, CFP® RICP® Principal	Alex Offerman, CFP® Director of Financial Planning	Anna Thornburg Director of Operations

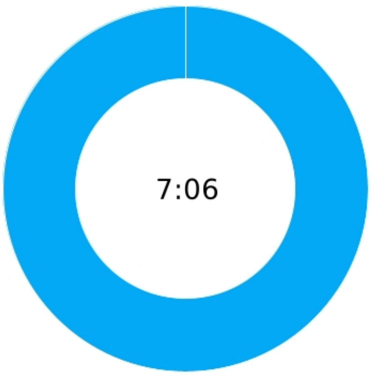
Summary report

11/01/2021 - 12/05/2021

Total: 7:06 Billable: 7:06 Amount: 2,130.00 USD

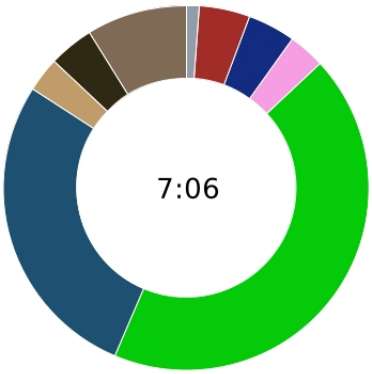


Project



Financial Planning - Smith, Steve and Melissa	7:06	100.00%

Description



Video Summary	0:38	8.87%
Written Summary	0:17	3.94%
Data Entry into Social Security Analyzer	0:13	3.10%
Zoom Meeting	1:58	27.75%
Data Entry and Analysis	3:04	43.24%

●	Email of Initial Findings	0:14	3.24%
●	Emailing Responses	0:18	4.23%
●	Analysis and Meeting Prep	0:19	4.51%
●	Statement Downloads	0:05	1.13%

Project / Description	Duration	Amount
Financial Planning - Smith, Steve and Melissa	7:06	2,130.00 USD
Video Summary	0:38	190.00 USD
Written Summary	0:17	85.00 USD
Data Entry into Social Security Analyzer	0:13	65.00 USD
Zoom Meeting	1:58	590.00 USD
Data Entry and Analysis	3:04	920.00 USD
Email of Initial Findings	0:14	70.00 USD
Emailing Responses	0:18	90.00 USD
Analysis and Meeting Prep	0:19	95.00 USD
Statement Downloads	0:05	25.00 USD