

**Silicon Valley Chapter  
American Association of Individual Investors**

***Financial Planning Workshops***

**Case Study**

Slides: [www.siliconvalleyaaii.org/financialplanning](http://www.siliconvalleyaaii.org/financialplanning)

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- The opinions expressed here are not necessarily those of AAll or the AAll Silicon Valley Chapter, whose only intent is to provide a background for understanding investment, personal finance and wealth management theory and practice.
- Nothing on these sites should be considered solicitations or offers to buy or sell any financial instrument or specific trading advice for individuals.
- Many of the topics discussed in these workshops are complicated. Please see a qualified professional before making any major decisions.

# Silicon Valley Chapter American Association of Individual Investors

Please check us out!

- Chapter website: [www.siliconvalleyaaii.org](http://www.siliconvalleyaaii.org)
- Meetups: [www.meetup.com/AAll-Silicon-Valley-Meetup](http://www.meetup.com/AAll-Silicon-Valley-Meetup)
- Facebook: [www.facebook.com/sv.aa](http://www.facebook.com/sv.aa)
- YouTube Channel:  
<https://www.youtube.com/channel/UC4GepcU8Izx8rZMaWNBeJtA>
- AAI National website: [www.aaii.com](http://www.aaii.com)

# Our Next Event and Special Interest Group Webcasts

- Monthly Event: Saturday September 9, 2023
- Financial Planning Discussion Group
  - Debra Stikes: Second Wednesday of each month September 2023 to June 2024 at 6:30pm
- Investing Discussion Group
  - Lynn Gillette: Fourth Monday of each month except December at 6:30pm
- Computerized Investing Group
  - Don Mauer: First Thursday of each month at 6:30pm

# Financial Planning Workshops

- Financial Planning ... The Big Picture
- Investing 1: Modern Portfolio Theory, Building a diversified portfolio
- Investing 2: Efficient Market Hypothesis; Can you beat the market?
- Taxes: TCJA, SECURE Act, Tax diversification, Asset location, QCDs
- Retirement Planning 1: Tax-advantaged plans, RMDs
- Retirement Planning 2: Safe withdrawal rates, Bengen's 4% rule
- Risk Management/Insurance: Annuities, Long-term care, Litigation
- Social Security and Medicare: Claiming strategies, Medicare traps
- Estate Planning: Probate, Executor/trustee duties, Philanthropy
- Wrap-up: Case study

# Case Study Benjamin and Geraldine Sweet

- Discuss each topic
  - PIP and IPS
  - Implementation of IPS
  - Taxes
  - Retirement Planning
  - Risk Management
  - Estate Planning

# Case Study

## Benjamin and Geraldine Sweet

- Married couple, both age 58, married 3 years ago
  - Ben has an adult son, Charlie, age 35
    - Married to Dora with 2 teenage boys, live in Phoenix
  - Second marriage for Geri also, no children
- Ben is an engineer at HiTech start-up
  - Salary \$155,000 per annum plus stock options
- Geri is a real estate attorney at BigBank
  - Annual salary is \$190,000
- Ben and Geri hope to retire in about 4 years
  - Would like to travel and “see the world”

## Ben and Geri continued

- Moved into Geri's home in Campbell, worth \$1.6M
  - Recently refinanced; 15-year 4.5% mortgage, \$1.2M
- Vacation house in Flagstaff, currently worth \$736,500
  - Ben bought in 2006,
  - 30 year mortgage - remaining \$398,000
  - Try to rent this house when they are not using it
- Geri owns a rental house in Visalia, worth \$628,000
  - Small positive cash-flow
  - 30 year mortgage – remaining \$360,000

## Ben and Geri continued

- Excluding their home Ben and Geri have an investment net worth of almost \$1.6M
  - Ben contributes \$400/month to his traditional IRA
  - Geri has a 401(k) to which she contributes \$1267/month
- Personal non-investment property
  - Ben owns a 2-year old Tesla, \$28,000 outstanding loan
  - Geri drives a 5-year old Mercedes, fully paid off

# Ben and Geri's Balance Sheet

<u>Assets</u>		<u>Liabilities</u>	
Investment port.	\$2,299,669		\$758,000
Investment net worth .....	\$1,541,668		
Personal use assets			
Home	\$1,600,000	Mortgage	\$1,200,000
Furniture, etc	\$25,000	Credit cards	\$35,000
Ben's Tesla	\$35,000	Ben's car loan	\$28,000
Geri's Mercedes	<u>\$25,000</u>	Other	<u>\$2,000</u>
Total	\$1,685,000	Total	\$1,265,000
Personal use net worth .....	\$420,000		
Total net worth .....	\$1,961,669		

# Income and Expense Statement

<b>Income</b>	Ben's salary = \$155k, Geri's salary = \$190k	\$345,000
	Ben's vacation house rental	\$15,000
	Geri's rental property	\$36,000
	Interest and dividends	<u>\$8,800</u>
	Total income .....	\$404,800

<b>Expenses</b>	Housing	\$117,200	Investments	\$87,000
	Income taxes	\$89,452	Transportation	\$25,800
	Insurance	\$4,000	Travel/Entertainment	\$41,500
	Medical exp	\$15,000	Personal items	\$10,000
	Utilities	\$4,000	Miscellaneous	<u>\$10,848</u>
	Total expenses .....			\$404,800

## Retirement Plans

- Ben has a traditional IRA at Fidelity
  - Contributes \$400/month, current value = \$106,564
- Geri has a 401(k) at work
  - Contributes \$1267/month, current value = \$214,049
- They plan to withdraw \$8,000/month when they retire plus a little extra to cover their travel expenses

# Investment Portfolio

Ben & Geri's CU checking + savings accts (\$1,500 + \$8,500)	\$10,000
Ben's Fidelity IRA: Contrafund = 63%, MM = 27%, + 4 funds	\$106,564
Geri's BigBank 401(k): ESOP = 36%, S&P 500 = 35%, FI = 10%	\$214,049
Ben's eTrade a/c: XOM = 49%, INTL = 8%, +12 other stocks	\$96,257
Geri's Schwab acct: Putnam G&I fund = 26%, Muni = 10%	\$192,215
Ben's stock options: Recent market value	\$125,784
Geri's CDs: Miscellaneous 1 to 3 years	\$189,500
Ben's vacation house: Mortgage = \$398,000	\$736,500
Geri's rental house: Mortgage = \$360,000	<u>\$628,800</u>
Total investments	\$2,299,669
Investment net worth	\$1,541,669

## Tax Returns for Last Year

- Federal income tax
  - Ben's salary \$155,000 + Geri's salary \$190,000 = \$345,000
  - Less Geri's 401(k) contribution -\$15,200
  - Taxable interest \$3,800
  - Dividend income \$4,775 + Capital gains \$4,864 = \$9,639
  - Adjusted gross income \$343,239
  - Less standard deduction -\$24,400
  - Taxable income \$318,839
  - Federal income tax \$64,293
- State income tax
  - Total state income tax \$24,159

# Risk Management / Insurance

- Homeowners insurance
- Both cars are insured
- Health insurance thru HiTech and BigBank
  - Assume Medicare will cover their needs after 65
  - Stated goal is to retire at 62
- Geri gets life and disability insurance as a work benefit
  - Life insurance (2x salary), Ben is the beneficiary
  - Disability insurance (80% of salary)
- Ben's work does not provide life or disability insurance
  - In 2012 Ben bought \$200,000 of 20-year term life insurance
  - Charlie is named as the beneficiary

# Ben and Gerry's Estate Plan

- Ben drew up a will in 2013
  - The bulk of his estate goes to Charlie's two teen-age sons
  - Charlie is the executor
- Geri also has a will
  - Half her estate goes to support Susan's special needs daughter Sara
  - Remainder gets split amongst her brother's three children
  - Susan is the executrix

## Discussion PIP and IPS

- Personal Investor Profile (PIP)
  - What are Ben and Geri's goals?
    - What are their Stated Goals?
    - Individual goals that aren't stated and may conflict?
    - What seems *off* in their Income and Expense statement
- Investment Policy Statement (IPS)
  - What Investment Policy is appropriate to achieve their goals?

## Discussion: Implementation

- Are their current investment appropriate for their goals?
- What changes should be made?
- What are the problems with their current budget?
  - Hints: Refinances and credit card debt
- Is their retirement budget realistic?
  - Hint - Campbell house is costing \$117,000 annually

# Discussion: Taxes

- Ben's IRA deduction?
- Minimal tax diversification
  - Would a Roth IRA make sense?
- Current tax rates
  - FIT bracket = 24%, effective rate = 18.5%
  - SIT bracket = 9.3%, effective rate = 6.9%
  - Total bracket = 31%, effective rate = 25.4%
- Tax rates in retirement?

## Discussion: Retirement Plans

- Saving rate
  - Ben:  $\$4,800 / \$155,000 = 3.1\%$  pa
  - Geri:  $\$15,200 / \$190,000 = 8.0\%$  pa
- Planned withdrawal rate
  - $\$96,000$  pa from  $\$1,541,669$  investment portfolio =  $6.2\%$  pa
  - Maximum Social Security at 62 is  $\$2,365$
- Possible solutions?

## Discussion: Risk Management / Insurance

- Ben's life insurance: Is this still needed?
- Health insurance after retirement?
  - Before 65, COBRA or ACA or other
  - Starting at 65, Medicare, Medigap and drug policies or Advantage plan
  - International Health Insurance?
- Long-term care needs: Do they need a LTC policy?
- Longevity risk: Is a deferred annuity appropriate?
- Liability coverage: How should they cover this risk?

## Discussion: Estate Plan

- Where will the surviving spouse live?
- Income for surviving spouse?
- New wills
- Trusts needed?
  - How many trusts

# Final Exam

## Courtesy of The American College

- 2020 Retirement Income Literacy Survey
  - Quiz with 38 questions on various financial planning topics
  - 4 in 5 older Americans fail to understand the basics
  - Wide knowledge gap in ...
    - ... basic investment management
    - ... retirement income literacy
    - ... preparedness for long-term care needs
- Prove that these workshops put you in the top 20%
  - Go to [retirement.theamericancollege.edu](https://retirement.theamericancollege.edu) and take the test or just Google “2020 Retirement Income Literacy Survey”
    - The answer for large caps vs small caps is wrong
  - Your choice: Open book or closed book
  - Write your answers down before checking the correct response. No cheating. Good luck!

# Light Reading

- My favorite authors
  - Christine Benz, Morningstar
  - Mike Piper, Oblivious Investor
  - Wade Pfau, Retirement Researcher
  - Bob French, Retirement Researcher
  - Rick Ferri, Ferri Investment Solutions
  - Allan Roth, Wealth Logic
  - John Rekenthaler, Morningstar
  - Michael Kitces, Nerd's Eye View
- Books
  - *A Random Walk Down Wall Street*, Burton Malkiel
  - *Winning the Loser's Game*, Charlie Ellis
  - *Investing at Level 3*, James Cloonan
  - *The Bogleheads' Guide to the Three-Fund Portfolio*, Taylor Latimore
  - *Social Security Made Simple*, Mike Piper
  - *How To Make Your Money Last*, Jane Bryant Quinn
  - *Doing Good Better*, William MacAskill

# To Probe Further

- *Determinants of Portfolio Performance*, Gary Brinson et al, Financial Analysts Journal, July/August 1986 and May/June 1991
- *Determining Withdrawal Rates Using Historical Data*, William Bengen, Journal of Financial Planning, October 1994
- *Active Management's Dilemma*, John Rekenhaller, Morningstar, May 2020
- *How to Tax-Manage Retirement Accounts*, John Waggoner, Investment News, April 2, 2018
- *Using The Bucket Approach with Your Retirement Portfolio*, Christine Benz, AAll Journal, October 2013
- *Understanding the 4 Key Annuity Types*, Christine Benz, Morningstar, July 2020
- *The Benefits of Long-Term Care Insurance*, Terry Savage, AAll Journal, June 2020
- *Preparing Clients for Widowhood*, Bill Harris, Journal of Financial Planning, April 2017
- *Key End-of-Life Planning Tasks to Complete*, Michael Falk, AAll Journal, March 2020

# Useful Websites

- [aaii.com](http://aaii.com) Broad selection of financial planning material
- [siliconvalleyaaii.org](http://siliconvalleyaaii.org) Previous presentations on various topics
- [santaclaracountylib.org/Adults/Business & Money](http://santaclaracountylib.org/Adults/Business%20&%20Money) Free Morningstar access
- [letsmakeaplan.net](http://letsmakeaplan.net) Find a CFP professional
- [bogelheads.org](http://bogelheads.org) Practical information on numerous topics
- [obvliousinvestor.com](http://obvliousinvestor.com) Michael Piper's blog
- [reversefunding.com](http://reversefunding.com) Reverse mortgage data
- [estateplanning.com](http://estateplanning.com) Comprehensive source of useful info
- [ethicalwill.com](http://ethicalwill.com) Ideas for writing your ethical will
- [givewell.org](http://givewell.org) Research backed philanthropic ideas

I've always told my people, "You can't take it with you",  
but Harry must not have been listening.



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