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FINANCIAL EDUCATION
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Fund for a Grandchild

How to create a lasting legacy for your grandchild

Opening Remarks



- Reasons for doing this are personal and varied
 - Provide supplemental income during retirement
 - Provide help in achieving life goals (e.g., home ownership)
 - Provide buffer against life's unknowns
 - ...
- The scenario is simplified. It is meant to provide insight into the magnitude of how the decisions one may make will affect the outcome.
- Not meant to provide specific individual guidance on what your plan should be or the performance you will achieve.

The Basic Scenario



“The Scenario” is simplified to make it easier to see ‘what’s important’

- Start with \$10,000 at age “0” in a taxable investment account
- Taxable and Roth accounts grow at constant 12%/year
- Taxable account withdrawals pay taxable account taxes
- Taxable withdrawals fund Roth contributions starting at age 21
- Retire at age 65
- Take retirement withdrawals of 5% of the Roth balance every year
- Plan ends at age 95

“A model should be as simple as it has to be, but no simpler.” – Albert Einstein

“A model should be as complex as it needs to be, but not more so.” – Bahls Corollary to Einstein’s observation

Modelling Assumptions



Taxable Account

- Roth contribution withdrawals are taken on the '1st of the year'.
- All dividends are considered as 100% taxable dividends.
- All withdrawals considered as 100% capital gains taxable.
- All taxes are paid by withdrawals taken at the 'end of the year'.

Roth IRA

- Contributions to Roth account are made on the '1st of the year'.
- Retirement withdrawals are taken, tax free, from Roth account once a year on the '1st of the year'.
- Note: No retirement withdrawals are taken from the taxable account, if one exists.



Analysis Inputs, Scope and Results

- Inputs cover a wide range of considerations
- **Yellow shaded parameters** represent key decisions to make when setting up and operating the fund
 - We will investigate each of these individually
- **Blue shaded values** represent the baseline scenario results used for comparison

Note: Roth contribution of \$8,000 is used to represent ‘nominal future inflation’ in the maximum allowable contribution amount

Strategy Inputs		Rate Inputs	
Starting Age	0	Inflation Rate	3.0%
Starting Amount	\$ 10,000	CG Tax Rate	15.0%
Rate of Return	12.00%	Dividend Rate	2.0%
Begin Roth Contrib	21	Ord Div Tax Rate	24.0%
Roth Contrib	\$ 8,000		
Inflate Roth? (Y/N)	n		
Roth Catch-Up	\$ -		
End Roth Contrib	64		
Retirement Age	65		
Withdrawal Rate	-5%		
End of Plan Age	95		

Summary of Results

	Nominal \$	* Real \$
Retire Balance-Tax	\$ 1,183,128	\$ 173,226
Retire Balance-Roth	\$ 10,857,840	\$ 1,589,732
First Ret. Dist.	\$ 542,892	\$ 79,487
Last Ret. Dist.	\$ 3,281,109	\$ 203,855
Total Retire Distrib.	\$ 46,065,750	\$ 3,971,489
End Balance-Tax	\$ 31,161,227	\$ 1,879,655
End Balance-Roth	\$ 69,822,000	\$ 4,211,686
Total Benefit	\$ 147,048,977	\$ 10,062,830

(* Note: 3% inflation is assumed to calculate Real \$.)

Let's look at the results.



Options to Achieve Target Return

Sample Portfolio Options

Target Rate	Asset Allocation			Historical Return	
	S&P 500	US SCV	Bonds	1927-2022	1970-2022
----	--%	100%	--%	13.1%	14.7%
12%	50%	50%	--%	11.9%	12.9%
10%	100%	--%	--%	10.0%	10.5%
8%	60%	--%	40%	8.3%	9.1%

Notes: Annual rebalancing

Bonds represented by 5-year Treasury Notes

Representative Expense Ratio applied to index returns

Data Source: DFA Returns Web

CAVEATS

- The scenarios presented here assume a constant Rates of Return – THIS IS NOT REAL.
- The sensitivity studies are meant to show how decisions you may make are related to the ultimate outcome, in a relative, (somewhat) quantitative manner
- Returns from the sample portfolio option asset allocations WILL BE DIFFERENT.

Best-in-Class Recommendations

	Best-in-Class	Alternative Recommendations
US Large Cap Blend	Avantis U.S. Equity (AVUS)	Vanguard S&P 500 (VOO), Vanguard Total US Market (VTI), iShares Core S&P 500 (IVV), SPDR Large Cap (SPLG), Schwab Large-Cap (SCHX)
US Small Cap Value	Avantis U.S. Small Cap Value (AVUV)	Vanguard S&P Small-Cap 600 Value (VIOV), SPDR Small Cap Value (SLYV), iShares S&P; SmCp 600 Value (IJS), Invesco S&P SmallCap 600 Pure Value ETF (RZV)



Round-Table Discussion

- Paul Merriman
- Daryl Bahls
- Chris Pedersen