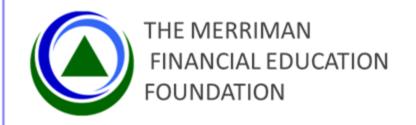


#### How to create a lasting legacy for your grandchild

**Opening Remarks** 

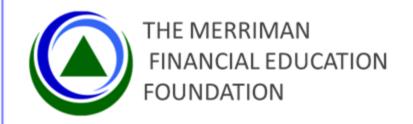


- Reasons for doing this are personal and varied
  - Provide supplemental income during retirement
  - Provide help in achieving life goals (e.g., home ownership)
  - Provide buffer against life's unknowns

• . . .

- 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 <u>constant</u> 12%/year
- Taxable account withdraws pay taxable account taxes
- Taxable withdraws 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



THE MERRIMAN FINANCIAL EDUCATION FOUNDATION

### <u> Taxable Account</u>

- Roth contribution withdrawals are taken on the '1<sup>st</sup> 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'.

### <u>Roth IRA</u>

- Contributions to Roth account are made on the '1<sup>st</sup> of the year'.
- Retirement withdrawals are taken, tax free, from Roth account once a year on the '1<sup>st</sup> of the year'.

 Note: No retirement withdrawals are taken from the taxable account, if one exists.

# Analysis Inputs, Scope and Results



THE MERRIMAN FINANCIAL EDUCATION FOUNDATION

- 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		Ra	<b>Rate Inputs</b>	
0		Inflatio	n Rate	3.0%
\$10,000		CG Tax	Rate	<b>15.0%</b>
<b>12.00%</b>		Divider	nd Rate	2.0%
21		Ord Div	Tax Rate	24.0%
\$ 8,000				
n				
\$-	~			
64				
65				
-5%				
95				
Summa	ry of Res	ults		
Nominal \$		* Real \$		
\$	\$ 1,183,128		\$ 173,226	
	10,857,840		\$ 1,589,732	
\$	542,892		\$	
<u>ل</u>	3,281,109		203,855	
\$	3,281,109	\$	2	00,000
	3,281,109 46,065,750	\$ \$		71,489
\$4			3,9	
\$ 4 \$ 3	46,065,750	\$	3,9 1,8	71,489
	0 \$ 10,000 12.00% 21 \$ 8,000 n \$ - 64 65 -5% 95 5 5 5 8 Nom \$ \$ 2 \$	0 \$ 10,000 12.00% 21 \$ 8,000 n \$ - 64 65 -5% 95 5 5 5 5 5 5 5 5 5 5 5 5 5	0   Inflatio     \$ 10,000   CG Tax     12.00%   Divider     21   Ord Divider     21   Ord Divider     \$ 8,000   Inflatio     \$ 8,000   Inflatio     \$ 8,000   Inflatio     \$ 8,000   Inflatio     \$ 10,857,840   \$     \$ 10,857,840   \$	0 Inflation Rate   \$ 10,000 CG Tax Rate   12.00% Dividend Rate   21 Ord Div Tax Rate   \$ 8,000 Inflation Rate   \$ 8,000 Ord Div Tax Rate   \$ 8,000 Inflation Rate   \$ 8,000 Ord Div Tax Rate   \$ 8,000 Inflation Rate   \$ 0rd Div Tax Rate Ord Div Tax Rate   \$ 8,000 Inflation Rate   \$ 0rd Div Tax Rate Inflation Rate   \$ - Inflation Rate   \$ 1,183,128 \$ 12   \$ 10,857,840 \$ 1,53

Let's look at the results.

© 2022 The Merriman Financial Education Foundation

# **Options to Achieve Target Return**



THE MERRIMAN FINANCIAL EDUCATION FOUNDATION

### Sample Portfolio Options

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

Notes: Annual rebalancing

Bonds represented by 5-year Treasury Notes

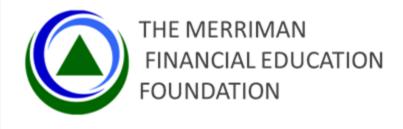
Representative Expense Ratio applied to index returns Data Source: DFA Returns Web

### <u>CAVEATS</u>

- The scenarios presented here assume a <u>constant</u> <u>Rates of Return</u> – 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), iSha S&P <u>SmCp</u> 600 Value (IJS), Invesco S&P SmallCap 600 Pure Value ETF (RZV)		



# **Round-Table Discussion**

- Paul Merriman
- Daryl Bahls
- Chris Pedersen