SIMPLIFY WEALTH
PLANNING

FINANCIAL PLAN

John and Jane Smith

Prepared on: 10/31/2024

Contact Name: Marcel Miu
Email: marcel@simplifywealthplanning.com

Table of Contents

Executive Summary

Summary

- You're in a great financial position and on track to meet all of your goals. There are many opportunities to maximize your financial situation and ensure you are making the most of your assets and resources.

Key Points

- Exploring Non-Qualified Deferred Compensation (NQDC) to reduce taxable income by $300,000 annually over the next 5 years
  - This can add between $148k - $384k in tax savings over 5 years, based on the # of years the portfolio is distributed over (1 year vs 10 years)
- Maximizing the use of the Mega Backdoor Roth your employer offers can add +$176k to your wealth over 25 years (vs not using it)
- We have discussed pursuing a two-pronged strategy to the investment portfolio and have a tax-efficient transition strategy outlined
- Your company's ESPP offers very attractive terms and maximizing it's use is a great way to incrementally build wealth (see analysis on page 13)

Key Metrics

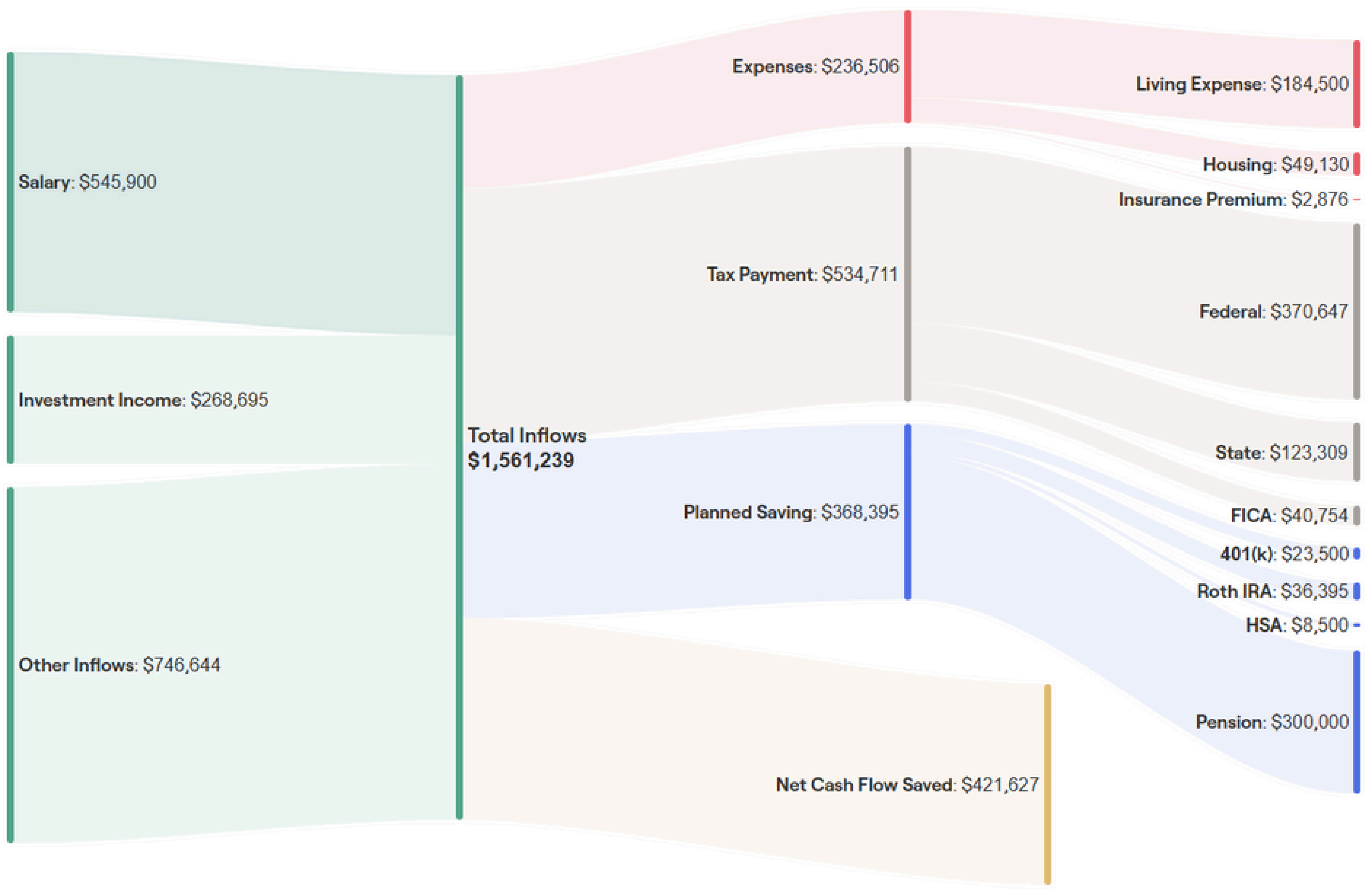
Potential $ Saved From Planning	Net Worth	Savings Rate
~$500K+	$5M	30%
NQDC, Mega Backdoor Roth, ESPP	As of 10/31/24	projected to be higher in future years

Cash Flow Overview (2025)

Notes

- Even assuming contributing $300k to the NQDC and full max out of Mega backdoor Roth, you will have excess cash flow
  - $422k excess cash flow reflects investment income distribution rather than reinvestment
  - Taking investment income distributions likely won't be necessary, but having the buffer available will help around unexpected expenses
- You'll want to maintain a $250k cash position heading into 2025
  - $50k for emergency fund (~3 months of expenses), $180k shortfall on Q1 cash flow target and $20k buffer.
  - You currently have $88k cash in your taxable account and I believe you usually maintain ~$30k in bank account.
    - ~$130k needs to be set aside from taxable account rebalance in early 2025 to fund the cash shortfall

2025 Cashflow Baseline



2025 Quarterly Cash Flow Planning

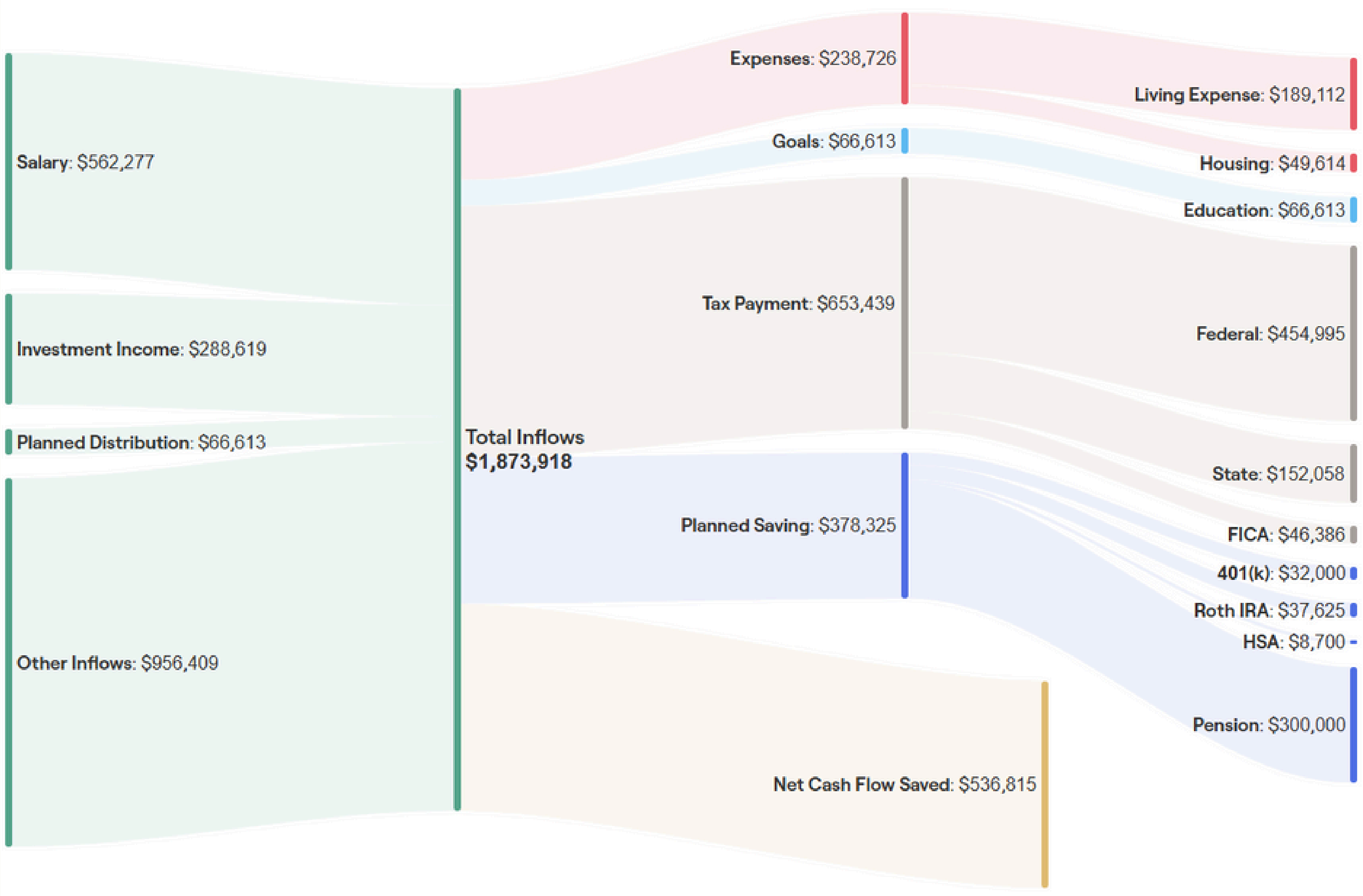
	Q1	Q2	Q3	Q4
Inflows				
Salary	$36,050	$36,050	$36,050	$36,050
Bonus	$0	$135,000	$0	$0
Investment Income	$66,101	$66,101	$66,101	$66,101
RSU Vest	$0	$742,808	$0	$0
Outflows				
ESPP	($6,250)	($6,250)	($6,250)	($6,250)
401k Contribution	($5,875)	$0	$0	$0
HSA Contribution	($2,125)	($2,125)	($2,125)	($2,125)
Medical/Commute	($1,250)	($1,250)	($1,250)	($1,250)
Living Expenses	($46,125)	($46,125)	($46,125)	($46,125)
Mortgage	($12,283)	($12,283)	($12,283)	($12,283)
Mega Backdoor Roth	$0	($39,450)	$0	$0
Prior Year Federal Tax	($57,000)	$0	$0	$0
Current Year Federal Tax	($93,884)	($93,884)	($93,884)	($93,884)
Prior Year State Tax	$0	$0	$0	$0
Current Year State Tax	($31,650)	($31,650)	($31,650)	($31,650)
FICA	($10,166)	($10,166)	($10,166)	($10,166)
Net Cash Flow	**($182,082)**	**$736,776**	**($101,582)**	**($101,582)**

Cash Flow Overview (2026)

Notes

- Continued participation in NQDC and maximizing mega backdoor Roth in subsequent years also suggests little concerns around cash flow
- $537k excess cash flow reflects investment income distribution rather than reinvestment

2026 Cashflow Baseline



Key Dates

2024	Q1	Q2	Q3	Q4
NQDC Enrollment				Finalize 2025 NQDC enrollment
Charity Strategy				Finalize charity strategy
Tax Projection				Ensure enough withheld for RSU vest

2025	Q1	Q2	Q3	Q4
Portfolio Transition	Proceed with bulk of investment portfolio transition			
Mega Backdoor Roth		Fund with bonus payment		
NQDC Enrollment				Finalize 2026 NQDC enrollment
Charity Strategy				Finalize charity strategy
Tax Projection				Ensure enough withheld for RSU vest

Goals

2024/2025 Goals

NQDC enrollment

Tax planning

Execute investment transition

Long-Term Goals

ROTH conversions

Being tax-efficient with charitable contribution strategy

Understand estate planning strategy

Details

Cash and Cashflow

- Even assuming contributing $300k to the NQDC and full max out of Mega backdoor Roth, you will have excess cash flow
    - $422k excess cash flow includes investment income being distributed rather than reinvested
    - Taking investment income distributions likely won't be necessary, but having the buffer available will help around unexpected expenses
- Continued participation in NQDC and maximizing mega backdoor Roth in subsequent years also suggests little concerns around cash flow
- You'll want to maintain a $250k cash position heading into 2025
    - $50k for emergency fund (~3 months of expenses), $180k shortfall on Q1 cash flow target and $20k buffer.
    - You currently have $88k cash in the taxable account and I believe you usually maintain ~$30k in bank account.
        - ~$130k needs to be set aside from taxable account rebalance in early 2025 to fund the cash shortfall

Debt/Budgeting

- No debt outside of low interest mortgage, which based on the rate, is not a priority to pay down
- Budgeting is not a focus for our engagement, but to the extent that changes, we can link transaction accounts to help provide guidance

Retirement Planning

- Based on all the data, you have a 100% of reaching all of your financial goals
- This gives us a lot of opportunity to explore additional scenarios that could unfold in the future
    - We can spend time on this during a future meeting

Investing

- We have discussed pursuing a two-pronged strategy to the investment portfolio
    - #1: a conservative, preservation approach for the first $10 million
        - The Conservative Growth and Income Muni portfolio was proposed
        - A hedged equity fund (HEQT) was recommended to reduce risk
    - #2: more aggressive strategy for the remaining assets
        - Focused on tax-advantaged retirement accounts
        - The 'SWP Growth' model was suggested
- Our tax managed portfolio transition model will help you move into your new portfolios without paying unnecessary taxes
    - Ensuring funds that are viable substitutes are not sold, while taking a gain, just to simply buy another fund that is very similar

Equity Compensation

- We'll want to keep a pulse on RSU vesting to ensure enough tax is being withheld
    - Standard withholding is 22% when income is below $1M, which will potentially means you will not be withholding enough from a tax standpoint
- BigTech Co's ESPP is quite attractive to participate in
    - The 15% discount and 2-year offering period window make this ESPP very attractive for employees
    - We discussed that maximizing upside via holding until qualifying disposition terms are met (2-year holding period) was the preferred strategy to pursue

Tax Planning

- A lot of value can be created by being strategic from a tax standpoint
- Exploring Non-Qualified Deferred Compensation (NQDC) to reduce taxable income by $300,000 annually over the next 5 years
    - This can add between $148k - $384k in tax savings over 5 years, based on the # of years the portfolio is distributed over (1 year vs 10 years)
    - See NQDC model for additional details
- A charitable bunching strategy of $50k this year will help save you $10k in taxes compared to $10k contributions over the next 5 years
    - Contributing highly appreciated stock will further add in tax efficiency
- Holding off on any major taxable account portfolio transitions until early 2025 to avoid any undesired capital gains distributions from funds

Details

College Planning

- You are on track to be mostly fully funded for your childrens' college costs
    - Child 1 - 98% goal coverage - potential for <$10k funding shortfall
    - Child 2- 96% goal coverage - potential for <$15k funding shortfall
- I would recommend funding the remainder from cash flow, if necessary

Estate Planning

- Your current estate plan leaves open the ability to enter into a disclaimer trust (a.k.a. Credit Shelter Trust).
- Properly using a Credit Shelter Trust can save a massive amount in estate taxes and allow you to pass more on to your beneficiaries
- We can discuss this in further detail

Employee Benefits

- Employee benefit selections seem to be appropriate for your situation

Insurance

- Your insurance coverages are mostly sufficient across the board

Life insurance

- Group life insurance coverage through employer is sufficient

Disability insurance

- Group disability insurance coverage through employer is sufficient

Long term care insurance

- We can discuss if there's any appetite to explore this coverage
- You can easily self insure for this risk

Property and casualty insurance

Home

- I can have my insurance team run quotes to see if there is savings to be had anywhere

Auto

- Auto insurance coverage levels seem appropriate
- I can have my insurance team run quotes to see if there is savings to be had anywhere

Umbrella

- I recommend getting $5M of umbrella to protect your wealth
- Umbrella insurance coverage is typically very cost effective

Implementation

Phase 1: December 2024 (1 month)

- Finalize tax projection
- Begin portfolio transition
- Implement charity strategy
- NQDC enrollment

Phase 2: January 2025 - March 2025 (3-4 months)

- Finalize portfolio transition
- Further discuss estate planning strategy
- Finalize umbrella insurance strategy
- Explore potential savings for auto and homeowner’s insurance
- Mega backdoor Roth for 2025

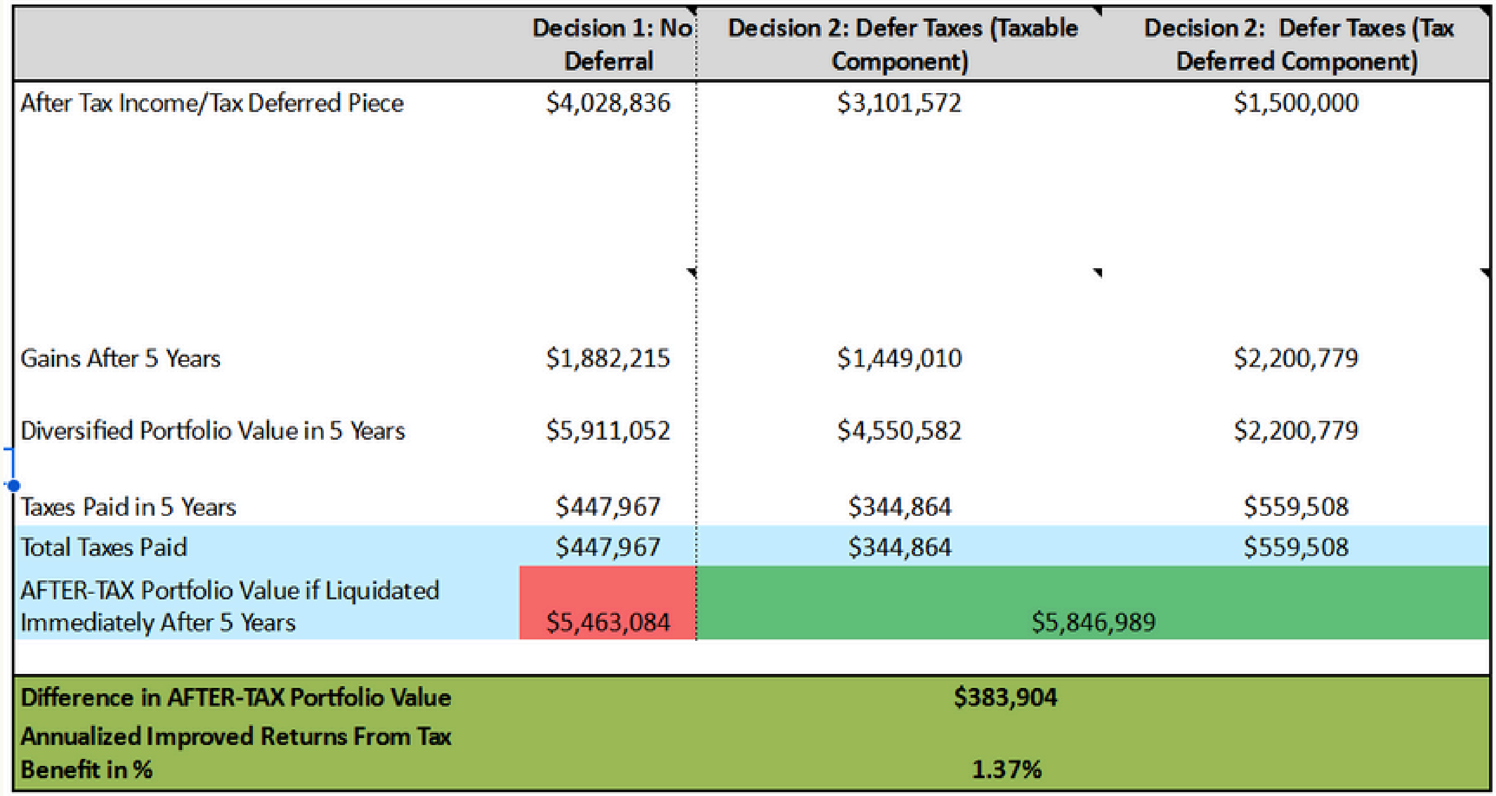
APPENDIX

Tax Planning - Non Qualified Deferred Comp

Notes

- Exploring Non-Qualified Deferred Compensation (NQDC) to reduce taxable income by $300,000 annually over the next 5 years
  - This can add between $148k - $384k in tax savings, based on the # of years the portfolio is distributed over (1 year vs 10 years)
  - Assumed deferred compensation was invested and earned 8% per year
  - Based on Federal tax rate analysis only
- The economic value of a tax deferral comes from the ability to keep more money invested for a longer period. Even if the same tax rate applies in the future, the investor benefits from the time value of money and potential growth on the deferred tax amount

The Value of an NQDC Tax Deferral



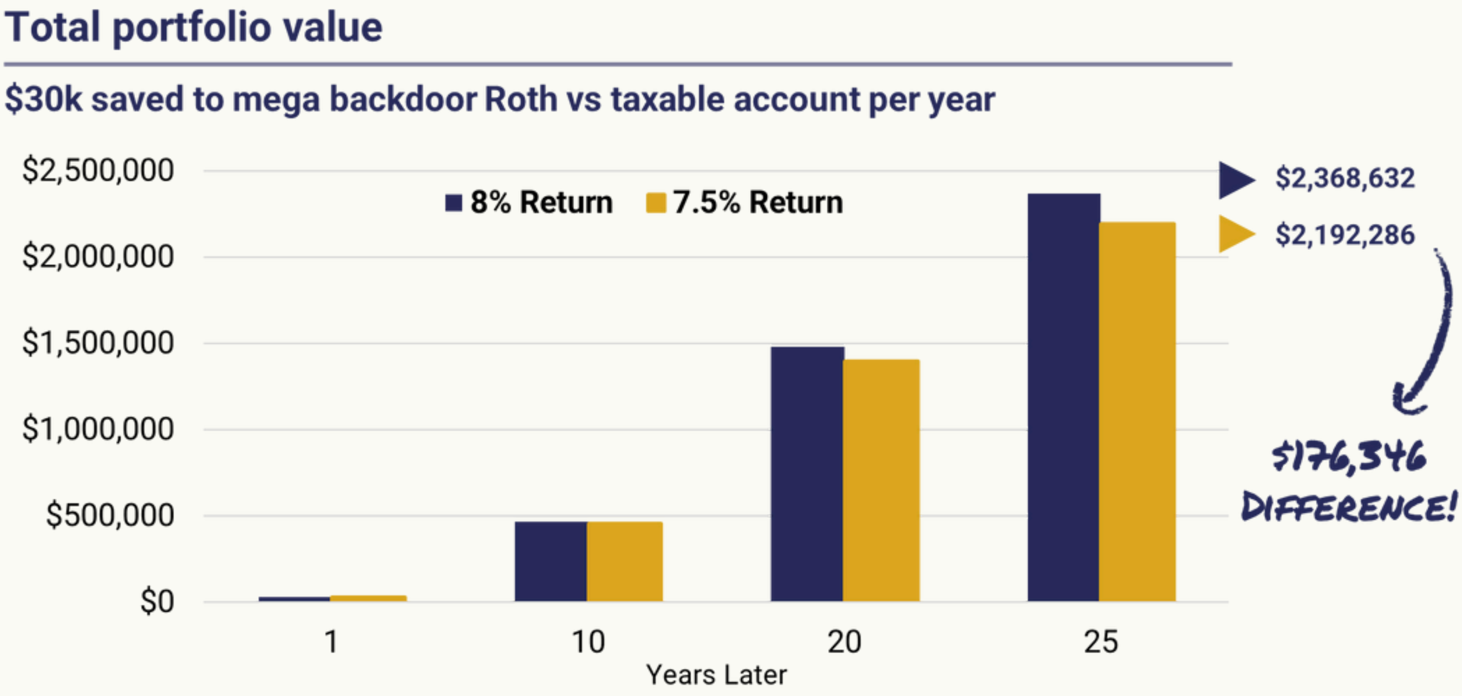
	Decision 1: No Deferral	Decision 2: Defer Taxes (Taxable Component)	Decision 2: Defer Taxes (Tax Deferred Component)
After Tax Income/Tax Deferred Piece	$4,028,836	$3,101,572	$1,500,000
Gains After 5 Years	$1,882,215	$1,449,010	$2,200,779
Diversified Portfolio Value in 5 Years	$5,911,052	$4,550,582	$2,200,779
Taxes Paid in 5 Years	$447,967	$344,864	$559,508
Total Taxes Paid	$447,967	$344,864	$559,508
AFTER-TAX Portfolio Value if Liquidated Immediately After 5 Years	$5,463,084	$5,846,989	
Difference in AFTER-TAX Portfolio Value		**$383,904**	
Annualized Improved Returns From Tax Benefit in %		**1.37%**	

Tax Planning - Mega Backdoor Roth IRA

Notes

- Why It’s So Powerful:
  - Normally, you can only put a relatively small amount of after-tax money into a Roth (via regular Roth IRA contributions)
  - But with the Mega Backdoor Roth, you use your plan’s after-tax 401(k) bucket to contribute well beyond the usual Roth limits
- Once in Roth form, those funds compound without any tax drag (estimated tax drag of 0.5% per year for taxable accounts). Over 20–25 years, that difference is substantial.
  - The chart illustrates how consistently contributing an extra $30k each year into a Mega Backdoor Roth instead of a taxable brokerage account can amount to hundreds of thousands more in total value.
- Roths also offer flexibility to access funds without penalty if you need it
  - While better used for long-term savings, the Roth’s flexibility is a bonus (e.g., tap into in a pinch, save for college costs)

Benefits of Mega Backdoor Roth (Avoid 0.5% Tax Drag)



Total portfolio value

$30k saved to mega backdoor Roth vs taxable account per year

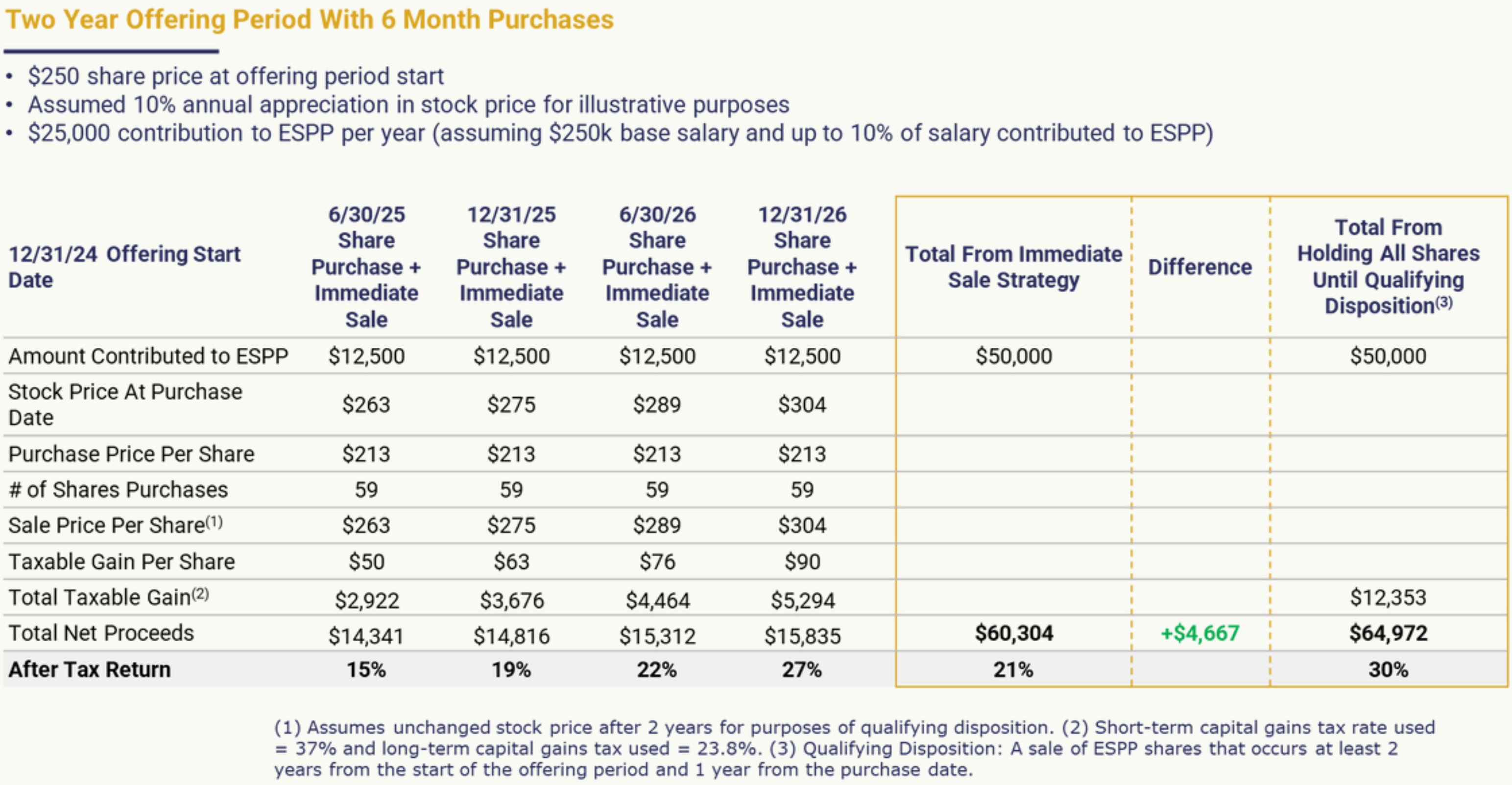
$176,346 DIFFERENCE!

Investment returns projected are based on hypothetical data. Past performance is no guarantee of future returns.

ESPP Participation

Key Points

- **The 15% discount and 2-year offering period window make your ESPP very attractive for employees**
- The two strategies to pursue:
  - **Option 1 (immediate sale):** take the immediate gain during each purchase period and sell as soon as your trading window opens
    - Pro: Lowest risk from a concentrated stock standpoint
    - Con: Not as tax-efficient as holding until long-term gains can be captured
  - **Option 2 (qualifying disposition):** Qualifying Disposition is a sale of ESPP shares that occurs at least 2 years from the start of the offering period and 1 year from the purchase date.
    - Pro: Locks in more favorable tax treatment
    - Con: Riskier from a stock concentration standpoint, and potential stock price decline, although the long lookback period can help a lot with reducing risk



Two Year Offering Period With 6 Month Purchases

- $250 share price at offering period start
- Assumed 10% annual appreciation in stock price for illustrative purposes
- $25,000 contribution to ESPP per year (assuming $250k base salary and up to 10% of salary contributed to ESPP)

12/31/24 Offering Start Date	**6/30/25 Share Purchase + Immediate Sale**	**12/31/25 Share Purchase + Immediate Sale**	**6/30/26 Share Purchase + Immediate Sale**	**12/31/26 Share Purchase + Immediate Sale**	**Total From Immediate Sale Strategy**	**Difference**	**Total From Holding All Shares Until Qualifying Disposition(3)**
Amount Contributed to ESPP	$12,500	$12,500	$12,500	$12,500	$50,000		$50,000
Stock Price At Purchase Date	$263	$275	$289	$304			
Purchase Price Per Share	$213	$213	$213	$213			
# of Shares Purchases	59	59	59	59			
Sale Price Per Share(1)	$263	$275	$289	$304			
Taxable Gain Per Share	$50	$63	$76	$90			
Total Taxable Gain(2)	$2,922	$3,676	$4,464	$5,294			$12,353
Total Net Proceeds	$14,341	$14,816	$15,312	$15,835	**$60,304**	**+$4,667**	**$64,972**
After Tax Return	**15%**	**19%**	**22%**	**27%**	**21%**		**30%**

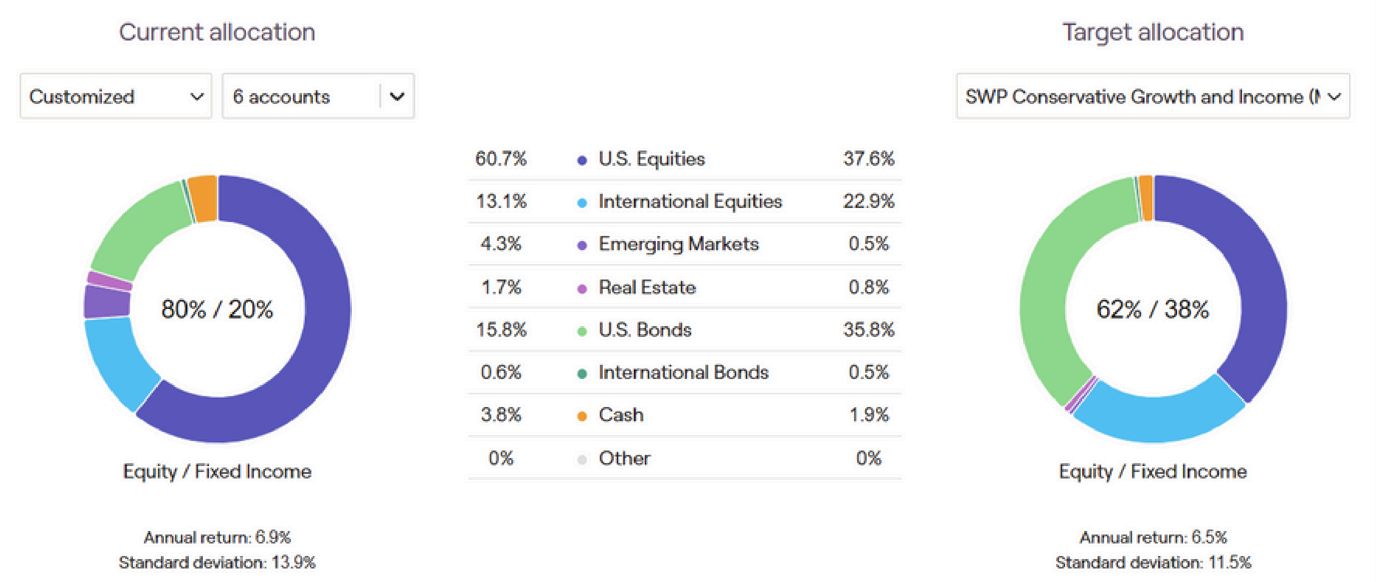
(1) Assumes unchanged stock price after 2 years for purposes of qualifying disposition. (2) Short-term capital gains tax rate used = 37% and long-term capital gains tax used = 23.8%. (3) Qualifying Disposition: A sale of ESPP shares that occurs at least 2 years from the start of the offering period and 1 year from the purchase date.

Investments Overview

Notes

- We have discussed pursuing a two-pronged strategy to the investment portfolio
  - #1: a conservative, preservation approach for the first $4 million
    - The Conservative Growth and Income Muni portfolio was proposed
    - A hedged equity fund (HEQT) was recommended to reduce risk
  - #2: more aggressive strategy for the remaining assets
    - Largely focused on tax-advantaged retirement accounts
    - The 'SWP Growth' model was suggested

Current Asset Allocation vs Proposed



Current allocation

Customized

6 accounts

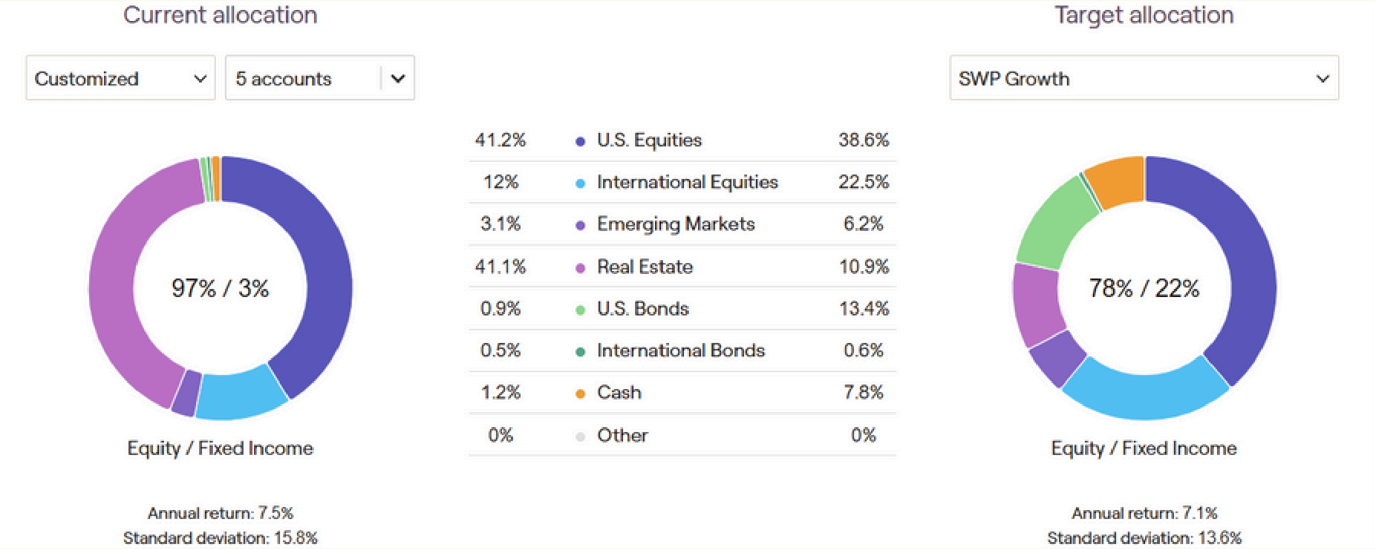
Target allocation

SWP Conservative Growth and Income (

60.7%	● U.S. Equities	37.6%
13.1%	● International Equities	22.9%
4.3%	● Emerging Markets	0.5%
1.7%	● Real Estate	0.8%
15.8%	● U.S. Bonds	35.8%
0.6%	● International Bonds	0.5%
3.8%	● Cash	1.9%
0%	● Other	0%

Annual return: 6.9%
Standard deviation: 13.9%

Annual return: 6.5%
Standard deviation: 11.5%



Current allocation

Customized

5 accounts

Target allocation

SWP Growth

41.2%	● U.S. Equities	38.6%
12%	● International Equities	22.5%
3.1%	● Emerging Markets	6.2%
41.1%	● Real Estate	10.9%
0.9%	● U.S. Bonds	13.4%
0.5%	● International Bonds	0.6%
1.2%	● Cash	7.8%
0%	● Other	0%

Annual return: 7.5%
Standard deviation: 15.8%

Annual return: 7.1%
Standard deviation: 13.6%

Important Considerations

At Simplify Wealth Planning (SWP), we are committed to providing our clients with expert guidance and support in managing their complex financial matters. While we highly recommend our implementation services to ensure the accurate execution of your financial plan, you are under no obligation to engage us further. However, please note that if you choose to implement the plan independently, SWP cannot be held responsible for any errors, lapses, or deficiencies that may occur.

To deliver the most accurate and comprehensive recommendations, we rely on the information you provide. It is crucial that you supply us with complete and accurate details, as any inaccuracies or omissions could lead to less than optimal advice. If your financial situation changes, please inform us promptly so that we can update your plan accordingly.

When reviewing the projections and assumptions in your financial plan, it's essential to understand that they serve as a guideline rather than a guarantee. Actual results may vary, and it's likely that your experience will differ from the projections. The purpose of these projections is to help you identify the most suitable scenario for your current and anticipated financial situation. If your circumstances change, please notify us immediately so that we can revisit your plan.

Investing in securities involves risk, including the potential for partial or complete loss of invested funds. SWP does not warrant that the information provided is error-free, and your use of this information is at your own risk. Past performance does not guarantee future results.

Unless otherwise specified, there are no restrictions on our investment advisory services other than managing your account(s) in accordance with your investment objectives. Please remember that it is your responsibility to inform SWP, in writing, of any changes to your personal or financial situation, or if you wish to impose, add, or modify any reasonable restrictions to our investment advisory services.

Potential risks to consider include:

- Annual retirement living expenses exceeding projected amounts
- Inability to meet annual savings targets
- Disability or retirement prior to assumed ages
- Premature loss of a spouse
- Long-term care expenses
- Underperformance of financial markets
- Inflation
- Potential increases in income taxes

At SWP, we are dedicated to helping you navigate your financial journey with confidence and peace of mind. Our team of experts is here to provide the guidance and support you need to achieve your financial goals.