SIMPLIFY WEALTH
PLANNING

FINANCIAL PLAN

John and Jane Smith

Prepared on: 3/31/2024

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

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Executive Summary

Summary

- You have a good income, healthy savings and reasonable goals. With your new reduced base salary, you will likely have a reduced ability to fund your target goals this year (commissions being the 'X' factor). Insurance coverages need to be reviewed ASAP.

Key Points

- Cash flows are likely to be constrained in 2024, but we have solutions to help alleviate that
- Based on both of you reaching age 90, there's a 43% chance that you reach your current goals without changing anything you're doing today
  - 60%-70% is a good target to reach while you're still young
    - Our recommendations will put you on track to reach these levels
- Shifting your 401k contributions from ROTH to traditional 401k will actually help you raise your probability of success from 43% to 45%
  - And increases your ending assets by $243k (in today's dollars)
- Super important that we discuss your insurance coverages
  - Current lack of disability insurance coverage is a glaring risk that needs to be addressed ASAP

Key Metrics

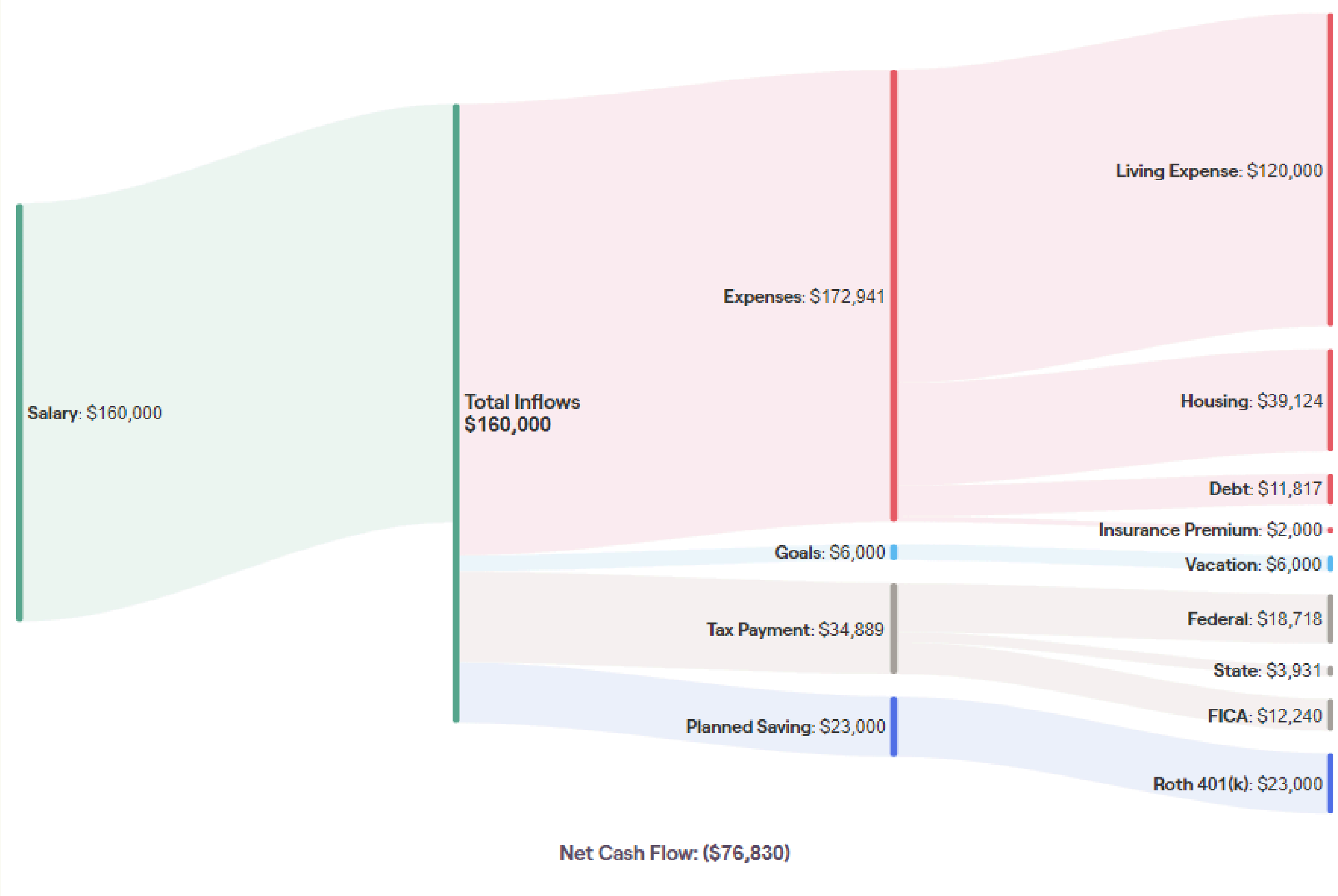
Potential $ Saved From Planning (Today's $ Equivalent)	Net Worth	Effective Tax Rate
$1.3M	$1.5M	18%
Switching from ROTH 401k to traditional; improved investment portfolio; 83(b)	As of 3/31/24	Based on implementing strategies outlined in the plan

Cash Flow Overview

Notes

- Cash flows are going to be constrained in 2024
  - Currently projecting a cash shortfall of $77k
  - $120k living expenses, $39k mortgage and $12k for cars puts you at $171k
  - After taxes on the $160k income, you’re at $125k
- Doing a Traditional 401k vs ROTH will help bridge that gap by ~$4k (pre-tax contribution + get a tax deduction)
- Reviewing your expenses and setting a budget could help you ensure your spending aligns with what you desire
- Sales commissions are a “X factor” and could also help bridge the gap

2024 Cashflow Baseline



Goals

% Complete

0% 100%

2024 Goals

Establish $85k emergency fund (6 months of expenses)

Review budgeting and spending

Optimize insurance coverages

Long-Term Goals

Stay on track for retirement savings

Consider establishing revocable living trust

Fund college for the two kids

Details

Cash and Cashflow

- Cash flows are going to be constrained in 2024
  - Currently projecting a cash shortfall of $77k
- I suggest you establish an emergency fund of at least $85k to cover your expenses for 6 months
  - Your current expenses are tracking at $14k/mo
  - You currently have $33k in your savings/checking, so an additional $52k added to your high yield savings

Debt/Budgeting

- Your budget has become tight relative to income
  - $120k living expenses, $39k mortgage and $12k for cars puts you at $171k
  - After taxes on the $160k income, you're at $125k
  - Setting a budget could help you ensure your spending aligns with what you desire (I can help with this)
- Your loans are at low rates and thus not a priority to pay off more aggressively
- Make sure you're paying off your credit card balance in full each month
- A quick call to renegotiate cell phone bill, cable, etc can be an easy win

Retirement Planning

- You guys have a great start on saving for retirement
- Based on both of you reaching age 90, there's a 43% chance that you reach your current goals without changing anything you're doing today
  - ~60% is a good target to reach
- You have a lot in ROTH accounts currently, and while an amazing accomplishment, to optimally benefit from ROTH, your future tax rate would need to be higher in retirement than it is today
  - But if all your money is in ROTH, then your future tax rate is extremely low
  - That leads me to suggest contributing to a traditional 401k rather than ROTH 401k
  - This move alone increase your probability of success from 43% to 45% and increases your ending assets by $243k (in today's dollars)

Investing

- Your investment portfolios are mostly appropriate for your risk profiles
  - This means the portfolios are largely stocks
  - I suggest diversifying with more non-US Stocks as you're US stocks heavy
  - No one can predict future market returns, but the projections show that by using a more global portfolio, your probability of meeting your goals goes from 43% to 54%
    - And grows your investment portfolio by $1.1M (in today's dollars)
- Your investments would benefit from simplification
  - Currently 25 different funds being held across all portfolios
  - 15 different funds being held across the three brokerage accounts
    - You have about $65k of taxable gains in these funds, so any transitions will need to be mindful of taxes
    - We will set up a tax transition plan so that no unnecessary taxes are paid

Equity Compensation

- You have great opportunities to maximize your equity compensation
- With the 90-day exercise window for [X company] options officially starting, we'll need to assess to what extent exercising those options is appropriate
  - Option value is currently underwater. The 409A valuation is below the strike price of your options
  - Unless you have strong conviction in a rebound and/or liquidity event higher than your strike price, I would suggest passing on the exercise
  - Another route is to exercise a small amount ($3-5k worth) to potentially hang onto some of the upside
- [X company] NSOs, with early exercise provision, need to file 83b election within 30 days of receiving to benefit from the tax break
  - I highly advise that you take advantage of this
  - If you have a successful exit, the tax savings can be immense (see analysis on page 9)

Tax Planning

- You had $4,400 of capital gains distributions in 2023
  - Was this intentional? Sometimes mutual funds have to send capital gains through even if you didn't sell the fund
  - This is what makes ETFs better in taxable accounts
- You had a tax refund of $8,500 in 2023
  - If cash flow is challenge this year, you could adjust your withholding to give yourself more cash flexibility

Details

College Planning

- You are in great position to fund college for your two children
  - The software I use tags education inflation rate at 5% increase each year
  - Depending on if you agree with that, it will have a big impact on future moves to fully fund their education
  - We can discuss this further

Estate Planning

- You should consider setting up a revocable living trust
  - It offers lots of flexibility, is easy to do and is low cost
- Through a platform I use, Wealth.com, you can set up a revocable living trust, last will, living will, power of attorney, and appointment of health care proxies for ~$500
  - The benefit is that all the docs are then centralized in one place and making any changes is easy
  - Also, having a revocable trust is one of the most effective ways for ongoing estate mgmt.

Employee Benefits

- You're currently enrolled in the "Core" healthcare plan at which seems to be the best choice
  - Getting an estimate on known healthcare costs you plan to incur will give us a clearer decision on the right plan
  - We can discuss further in our next meeting
- Maxing out an HSA, to the extent you're eligible for one (must be in a high-deductible health plan), is the best ways to grow wealth in a tax-efficient way

Insurance

- I strongly suggest increasing your insurance coverages

Life insurance
- At a minimum to ensure all of your goals are met, in case of an unexpected passing:
  - John should increase his life insurance coverage to $800k (currently $130k through his employer)
    - An inexpensive term life policy that covers you through age 65 will suffice
  - Jane should get a policy with $400k of coverage
- To replace John's paycheck, and to maintain currently lifestyle, you would need a policy that covers $1.75M
- To replace Jane's child care duties and future paycheck, you would need a policy that covers $575k
- I'll work with my insurance team to run you quotes

Disability insurance
- John needs more disability insurance coverage
  - [X company] coverage only protects base salary, which is not sufficient for someone in a commission-based role
  - Your disability benefit is $3,300 per month and that would be taxable income
  - This represents 25% coverage of your current income and 60% is the target
- There are a couple of solutions
  - Since the group plan premiums are employer paid the benefits are taxable. Inquire with you benefits person to see if you can pay the premiums yourself to make the benefit tax-free
  - Obtain an individual disability policy to cover the difference
  - I can have my insurance team run the quotes

Property and casualty insurance
- **Renters/Home** - Your homeowner's policy current covers you up to $750k
  - This seems to be well in excess of your home's value
  - We can see if my insurance partner can get you a policy that a) reduces the cost b) still provides good coverage
- **Auto**
- Auto policies seem good, but doesn't hurt to check if we can get a discount

- **Umbrella**
- Your net wealth is well over $1M now, so exploring umbrella protection is wise
  - Usually inexpensive to get coverage

Implementation

Phase 1: March 2024 - April 2024 (1-2 months)

- Establish an emergency fund of at least $85k to cover your expenses for 6 months
- Review budgeting and spending
- Switch 401k contribution from ROTH to traditional
- ISO Shares: 30-day window for 83(b) election ends (TBD)
- Review and optimize life/disability insurance coverages

Phase 2: May 2024 - July 2024 (3 months)

- Make quick calls to renegotiate cell phone bill, cable, etc
- Adjust investment portfolios

Phase 3: August 2024 - October 2024 (3 months)

- Consider establishing revocable living trust
- See if we can improve home and auto insurance policies
- Explore getting umbrella insurance coverage

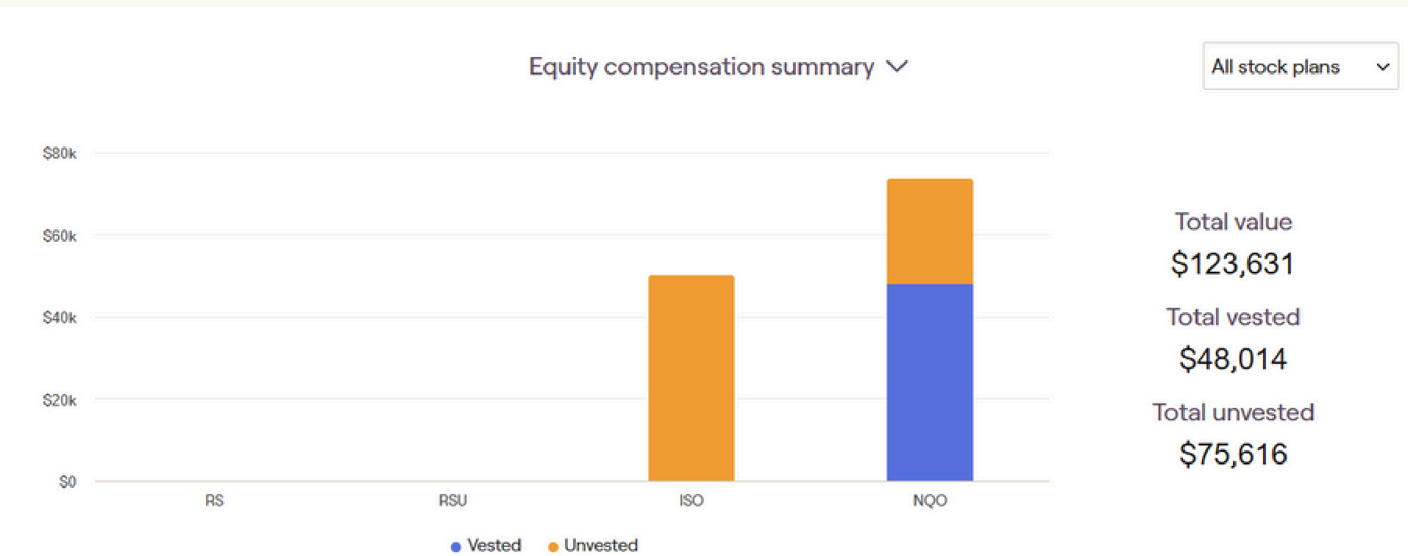
APPENDIX

Equity Compensation Overview

Key Points

- All of your vested options are NSOs, of which most of them you did an 83b election on
- Once your ISOs vest, we'll want to strategically evaluate whether to exercise any each year. This can help keep taxes and out-of-pocket costs low

Equity Compensation Holdings Summary

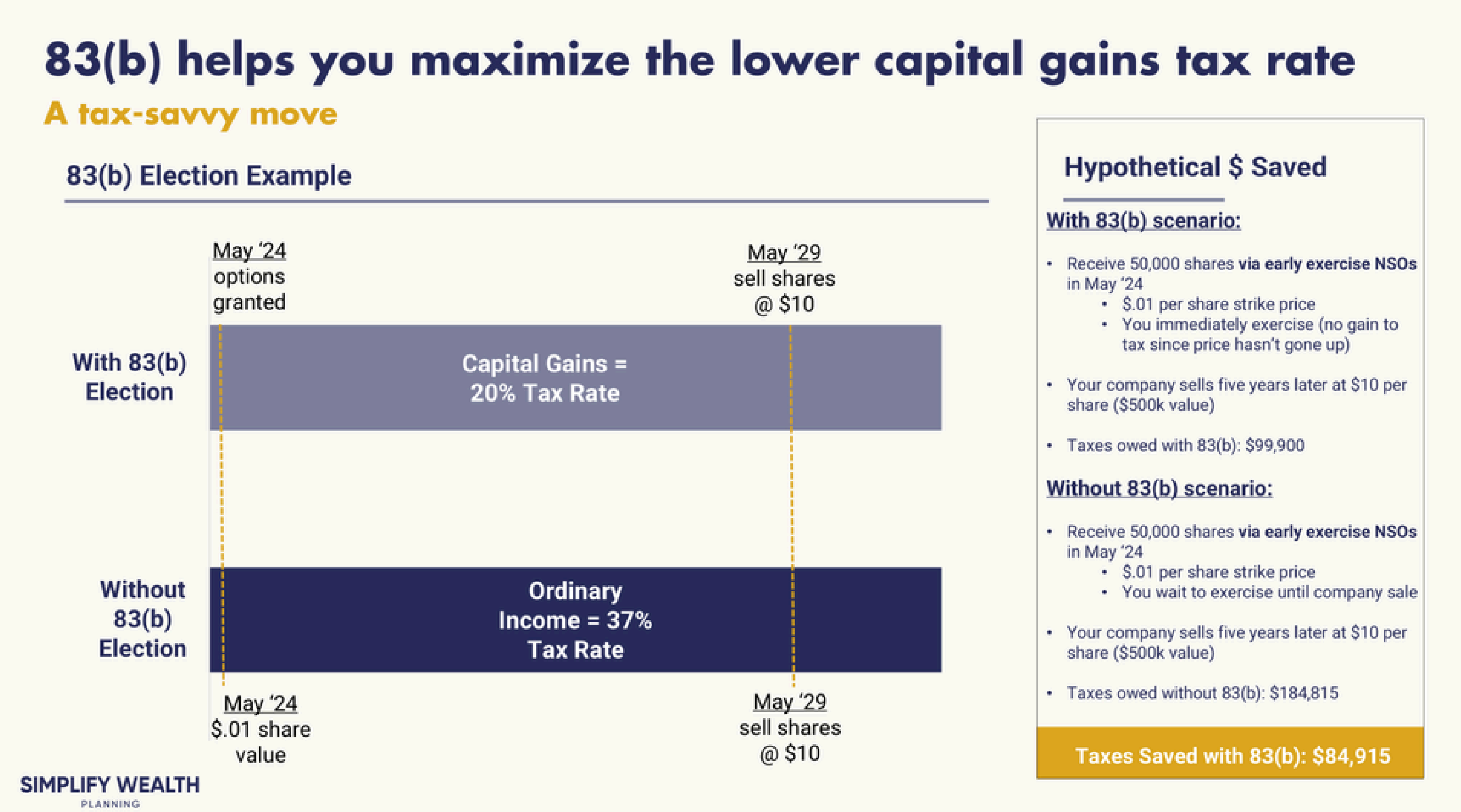


Grant Type	Grant Date	Expiration Date	Strike Price	Shares Granted	Vested & Unexercised	Vested & Held	Total Vested	Total Unvested	Total Shares
[illegible] Stock									
NQO	01/01/2020	01/01/2020	$2	8,959	$0	$22,398	$22,398	$0	$22,398
Total [illegible] Stock				8,959	$0	$22,398	$22,398	$0	$22,398
[illegible]									
NQO	12/06/2023	12/06/2033	$0	8,000	$3,960	$0	$3,960	$3,960	$7,920
Total [illegible]				8,000	$3,960	$0	$3,960	$3,960	$7,920
[illegible] Shares									
NQO	02/02/2024	02/02/2034	$0	43,750	$21,656	$0	$21,656	$21,656	$43,313
Total [illegible] Shares				43,750	$21,656	$0	$21,656	$21,656	$43,313
[illegible]									
ISO	02/26/2025	02/26/2035	$1	10,000	$0	$0	$0	$50,000	$50,000
Total [illegible]				10,000	$0	$0	$0	$50,000	$50,000
Total stock plans				**70,709**	**$25,616**	**$22,398**	**$48,014**	**$75,616**	**$123,631**

Equity Compensation Analysis - 83(b) Election

83(b) election for “X Company” ISO Shares

- 83(b) helps you maximize the lower capital gains tax rate
  - The larger the difference between your income tax rate vs capital gains rate, the bigger the benefit from 83(b)
- It’s a tax savvy move that can pay off majorly if there’s a successful exit
- Given your strike price is virtually $0, the risk vs reward highly suggests pursuing the 83(b) election
- $85k = Approximate tax savings if there’s a successful exit ($10/share)



Investments Overview

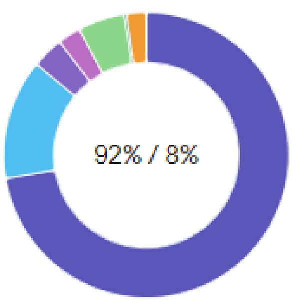
Notes

- You currently hold 25 different funds across your accounts
- Consolidating and coming up with a cohesive plan would be beneficial
- Your asset mix (stocks vs bonds) is generally solid; I suggest adding more global stock diversification (taking some away from US stocks)
  - Based on current projections, by doing so, your probability of meeting your goals goes from 43% to 54%
  - And grows your investment portfolio by $1.1M (in today's dollars)
- You have about $65k of taxable gains in these funds, so any transitions will need to be mindful of taxes

Current Asset Allocation vs Proposed

Current allocation

Customized | 5 accounts

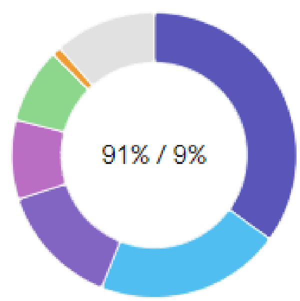


Equity / Fixed Income

Annual return: 7.4%
Standard deviation: 15.9%

Target allocation

SWP Growth



Equity / Fixed Income

Annual return: 7.6%
Standard deviation: 14.3%

Current	Asset class	Target
72.4%	U.S. Equities	35%
13.6%	International Equities	21%
3.6%	Emerging Markets	14%
2.6%	Real Estate	9%
5.3%	U.S. Bonds	8.5%
0.3%	International Bonds	0%
2.2%	Cash	1%
0%	Other	11.5%

ACTION ITEMS

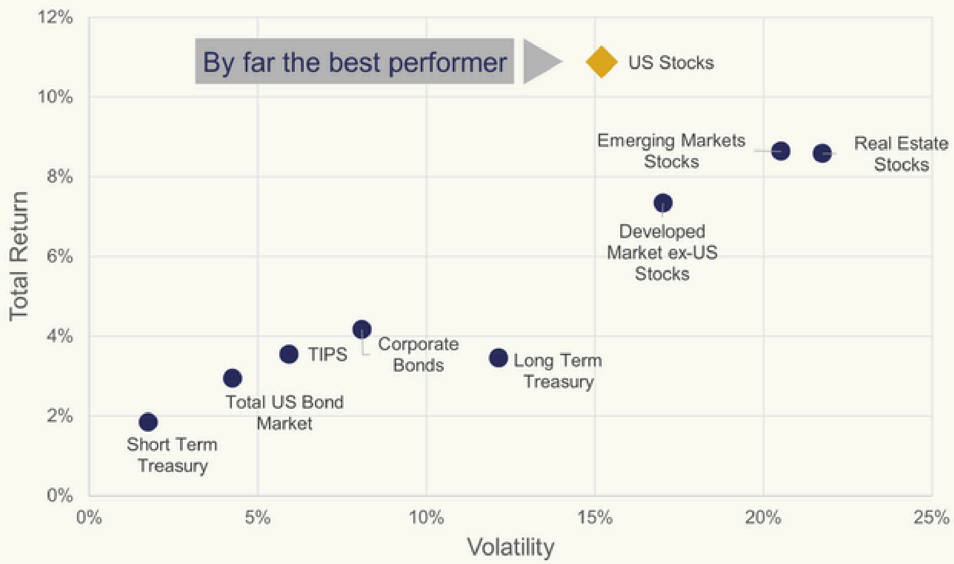
To balance back to your target portfolio

U.S. Equities	↓ $408,192	International Equities	↑ $80,765	Emerging Markets	↑ $113,508
Real Estate	↑ $69,851	U.S. Bonds	↑ $34,925	International Bonds	↓ $3,274
Cash	↓ $13,097	Other	↑ $125,514		

Why?

Don’t rely on a repeat of US stocks dominance

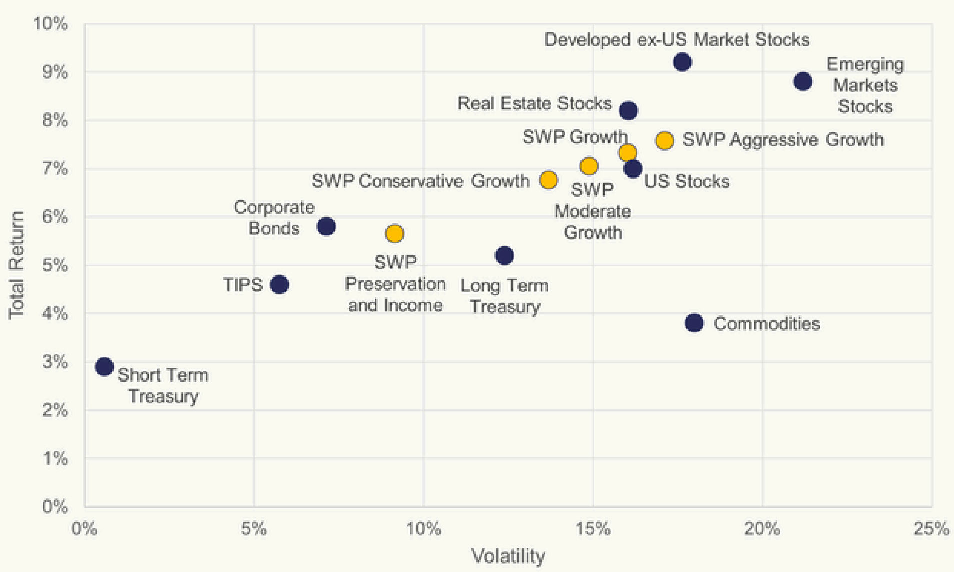
Historical total returns from January 2003 – May 2024



Source: Portfolio Visualizer data.

A strategic asset allocation to guide you through an uncertain future

Expected total returns over the next 10 years – LT Portfolios

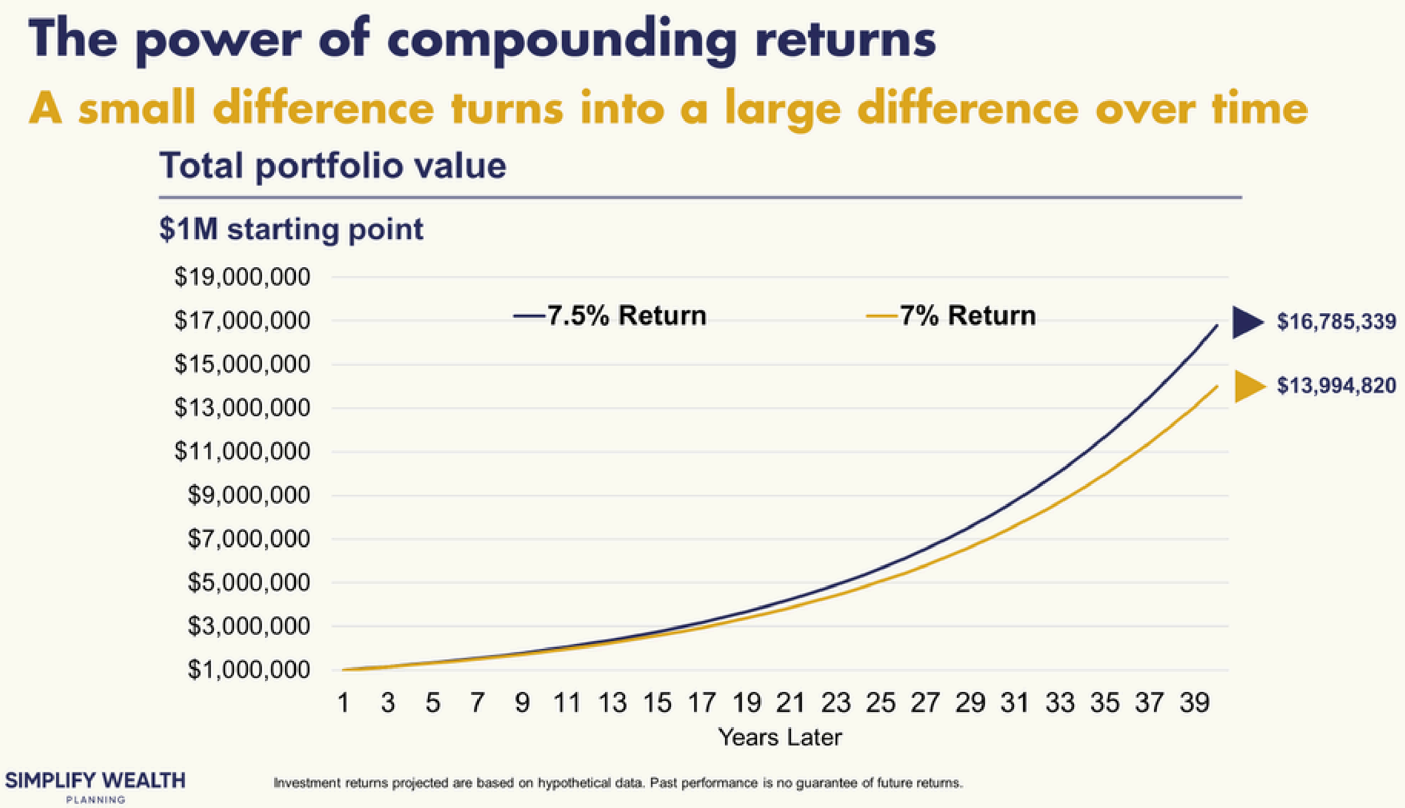


Source: Based on JP Morgan’s 2024 long-term capital market assumptions.

Investments Implementation

Notes

- Think of all of your investment portfolios holistically
  - Hold the most tax-efficient assets (US equities ETFs) in taxable accounts; less tax efficient assets (Bonds) in IRAs/401ks
    - This can equate to a +0.50% increase in returns per year, which adds up to a lot over a long timeframe (see chart below)
  - I will provide you with an exact implementation plan at the fund level



Estate Planning

Notes

- You should consider setting up a revocable living trust (see table below to understand why)
- Through a platform I use, Wealth.com, you can set up a revocable living trust, last will, living will, power of attorney, and appointment of health care proxies for ~$500
  - The benefit is that all the docs are then centralized in one place and making any changes is easy
- Also, having a revocable trust is one of the most effective ways for ongoing estate mgmt.

Establishing a revocable living trust has never been easier

Revocable trusts streamline estate planning

	Revocable Living Trust	Will	Beneficiary Designations
Avoids Probate	✅	❌	✅
Private	✅	❌	✅
Control During Lifetime	✅	✅	✅
Control After Death	✅	❌	❌
Allows For Incapacity Planning	✅	❌	❌
Easy to Amend	✅	❌	✅
Seamless Handle in One Place	✅	❌	❌
	Even combining a will + beneficiary designations leaves gaps		

SIMPLIFY WEALTH PLANNING

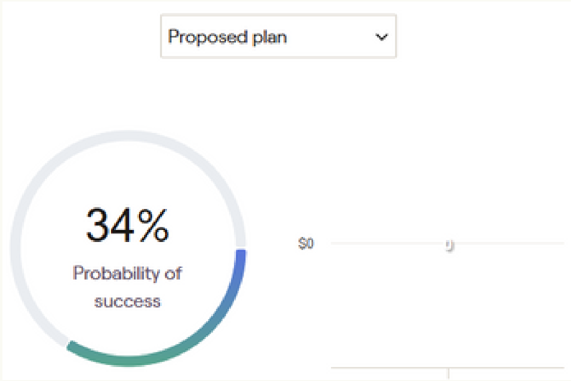
Scenario Planning: Retire Sooner

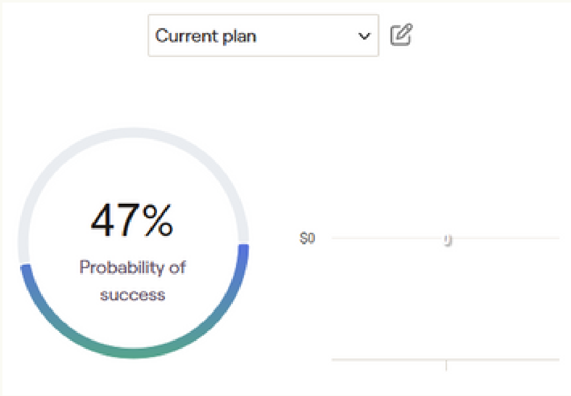
How Does Retiring 5 Years Sooner Look

- Retiring at 60 rather than 65 has a meaningful impact on your odds of reaching all of your financial goals
- Your probability of success goes from 47% to 34%
  - 34% means that in 34% of the 1000s of simulations run, you would need to make adjustments to not run out of money
  - That doesn't mean it will certainly happen, but it's always wise to stack the deck in your favor and understand the range of outcomes
- Bear in mind that the end of your career is often some of your highest-earning years; cutting off 5 high-earning years has a significant impact

Scenario 1 vs Current Plan (Baseline)

	Proposed plan	Current plan
Financial goals		
retirement age	60	65
retirement a...	60	65
Retirement Monthly Ex...	$ 9,000	$9,000
Savings		
Roth 401(k)	$ 0	Max
401(k)	Max	$0
Expenses		
Pre-retirement Living E...	$ 10,000	$10,000





Important Considerations

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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.

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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.