Introduction to Financial and Retirement Planning

Trevor Deighton - Updated 3/2024

Introduction:

This document is intended to be a clear, concise yet comprehensive introduction to sound financial and long-term retirement planning. One challenge with a document like this is to keep it clear and simple while discussing information that is complex and confusing. Everyone has a trick, a tip, a stock pick or financial advice - this is none of those. Sound financial planning is a boring recipe based upon well documented, researched and demonstrated strategies that have a track record of success. In short, the well known recipe is as follows; limit debt, insure against catastrophe, automate savings from your paycheck each month, save in tax advantaged accounts with a broad base of low fee mutual funds, don't touch them and do this for a long time. If you do, you will be able to live a richer life both now and in the future. The primary audience is for working/middle class people living on both sides of the Tetons, in Idaho and Wyoming, especially teachers and guides but it applies to a much larger demographic. This information was researched and written by Trevor Deighton. Disclaimer: It has been regularly reviewed and updated by both Trevor and other financial planners; however, it is not intended to be investment advice or apply to every individual situation. Use at your own risk. If you would like to learn more or schedule an individual meeting for financial planning help for your specific situation, please feel free to reach out at www.AlpineAdvantageFinancialCoaching.com or trevordeighton@gmail.com

Debt:

Paying off harmful debt, e.g. high interest rate debt, is the priority

1. Credit card debt is harmful high interest debt and can be as high as 30% interest per year.
    - For example: If you had an REI Mastercard with a 30% APR Annual Percentage (interest) Rate that you had a $1000 balance on and paid $50 per month towards paying it off - it would take you 29 months - over two years to pay off and you would pay a total of $1,403 including the $403 of interest on the $1000 original balance.
    - Pay off credit card debt before moving onto savings and savings for retirement.
2. School loan debt is a priority to pay off but not at the expense of retirement savings. Note: Teachers and Public Service Employees have amazing opportunities for loan forgiveness that have recently had a lot of changes. If you are a teacher with school loans there is a lot of learning to do here that can save you tens of thousands of dollars.
3. Auto loans and personal loans should be a priority to pay off but also not at the expense of retirement savings.
4. Depending on the interest rate, fixed rate home loans are “good” debt to keep and pay off slowly over the life of the loan. Especially with a low interest (<4-5%) fixed rate, it isn’t worth adding extra principal payments.

Insurance:

Sufficient insurance is important to safeguard against catastrophic losses that would add debt or wipe out savings.

- [ ] Health Insurance - mandatory.
- [ ] Auto - mandatory.
- [ ] Homeowners Insurance (mandatory) or Renter’s Insurance (cheap and a great idea).
- [ ] Umbrella Insurance - optional. Typically inexpensive when paired with other insurance plans and helps protect assets. A good idea especially as you get older and accumulate assets.
- [ ] Long Term Disability - yes for individuals in high risk jobs or activities i.e. Mountain Guides. A good idea if you or your family rely on a single income.
- [ ] Term Life Insurance: if you have kids, dependents or a lot of debt then you need term life insurance especially if you are the only income in your household. Term life is much less expensive and all that is needed in most cases.
- [ ] Insurance to AVOID. There are several types of insurance that are in general NOT worth purchasing for most people; these include things like “cancer” or “accident” insurance and most policies sold by companies like AFLAC and American Fidelity.

Will / Estate Planning:

It is important to have a will to both protect your family and your assets if you or a spouse pass away.

- [ ] You may need to hire an attorney if your will, estate or family situation is complicated.

- [ ] As a start or for less complicated situations - [FreeWill.com] is an reputable, easy and free online service.
- [ ] Be sure to update the beneficiaries on your retirement accounts as they are usually not covered by your will. This is easy to do online. For teachers be sure to have a beneficiary designated on your pension plan.

Emergency Fund/Savings:

Having access to 3-6 months of living expenses is important to hedge against unexpected events such as large unexpected bills or changing jobs to preserve your retirement savings.

- An emergency fund should be kept in a savings, money market account or other account where you can easily get to the money without penalty.
- If an emergency crops up and you spend it, then work on replenishing it.

Pensions, Social Security and Medicare:

Pensions, Social Security and Medicare are all very important components of retirement planning but for most people these are not enough to fully fund their retirement and additional retirement savings are vital.

- If you are lucky enough to have a pension through your job it is important to learn more about it, especially if you are thinking of changing jobs or as you approach retirement age. Most people undervalue the worth of a pension.
- Teachers in both Wyoming and Idaho still qualify and receive their full Social Security benefit along with their pension.
- To learn more about Social Security and check your account go to www.ssa.gov
- Social Security retirement age is between 62 - 70 years old. It is generally advisable to wait as long as you can to collect social security as the monthly payments increase.
- Medicare is federal health insurance once you reach 65. Health insurance costs prior to medicare age are huge and one of the most overlooked costs of retiring before age 65.
- Document - Pension & Retirement Plans Overview for Wyoming / Idaho Teachers

Investing for Your Child's Education (College)

Investing for your children's education and their future is an important topic. For most families, a 529 college savings plan is the correct tool. Idaho has an excellent state plan and while Wyoming no longer has a state plan residents of Wyoming can invest in the plan of any other state - Nevada is a good low cost choice. For more specifics and details please see the document - Investing for Your Child's Education (College)

Retirement Savings = Financial Independence:

When you can live off of your retirement savings and pensions/social security and work only when you choose to then you are "financially independent".

Retirement Saving Goals / Principles:

Set up everything to automatically save as much as you can each month without sacrificing your quality of life.

- ☐ Pay yourself first!
- ☐ **Automatically withdraw retirement savings from your paycheck.**
- ☐ The conventional wisdom is saving 10-15% of your salary for your retirement. This is probably not the starting point! And perhaps, not the ending point if saving even more is the long term goal.
- ☐ Pay raises should increase your retirement savings rate each year. Split the amount of the increase with your "current self" and your "future self" i.e. if you get a 3% pay raise then increase retirement contributions by 1.5% and enjoy a 1.5% raise.
- ☐ Take advantage of and max out any employer matching contributions to retirement.
- ☐ Retirement savings go into very low fee mutual funds. An easy option are Target Date Retirement Funds - pick a fund that matches your anticipated retirement date - set it and forget it.
- ☐ Do not pay attention to stock market ups and downs - you are in it for the long haul. Once your money goes into a fund, leave it until retirement - set it and forget it!

Types of Tax Advantaged Retirement Accounts:

A brief description of the main types of tax advantaged retirement accounts. All of these different types of accounts should be opened at or transferred to a low fee investment company like Vanguard. There are many additional rules surrounding all of these types of tax advantaged accounts and all have 10% early withdrawal penalties.

- 457(b) Plan is an employer sponsored retirement account available to state and local government employees (including teachers). In 2024, up to $23,000 per year can be contributed in any combination of pre or post tax contributions. If you are over age 50 then you are allowed an additional $7,500 catch up contribution.
  - One advantage of a 457(b) over other retirement accounts such as a 401(k) or 403(b) is there is no age-based early withdrawal penalty. If you leave service (quit your job) you can access the funds without penalty.
  - Another advantage is that 457(b) plans have contribution limits separate from other retirement plans, like 403(b) or 401(k). For example, if you have access to both a

457(b) and a 403(b) then you can contribute the maximum allowed to both per year! A lot of teachers have access to this incredible savings opportunity!
    - The Wyoming Retirement Systems has good low fee investment options including target date retirement funds available to in their 457(b).

- 403(b) Plan is an employer sponsored retirement account available to employees of schools and nonprofits. In 2024, up to $23,000 per year can be contributed in any combination of pre or post tax contributions. If you are over age 50 then you are allowed an additional $7,500 catch up contribution.
    - Beware!!!! Many employers only offer 403(b) accounts through shady high fee investment firms selling high-cost products, like annuities!!! DO NOT INVEST in these products. If someone is trying to sell you on opening a 403(b) account with them - don't! Before you open a 403(b) account check the vendor rating - 403bwise.org ratings
    - If your employer offers access to Vanguard or another quality low fee investment service then you are psyched and should contribute to a 403(b) account and pick a low fee mutual fund like a target date retirement fund.
    - 403(b) contribution limits are separate from 457(b) contribution limits but share the maximum with 401(k) contributions.
    - Both NOLS, WY TCSD#1 and Idaho TSD 401 employees have access to open 403(b) accounts at Vanguard.
    - Idaho TSD 401 Employees have American Fidelity available. They are a very high fee annuity vendor with surrender charges - do NOT open a 403(b) with them. 403bwise.org ratings

- 401(k) or 401(a) Plan is a tax advantaged individual retirement account for employees of for-profit companies 401(k) or nonprofits and government organizations 401(a). In 2024, up to $23,000 per year can be contributed in any combination of pre or post tax contributions. If you are over age 50 then you are allowed an additional $7,500 catch up contribution.
    - Many employers offer 401(k) plan matching of 1-5%. If you have this opportunity your first saving priority is maximizing this "free money" matching!
    - 401(k) contribution limits are separate from 457(b) contribution limits but share the maximum 403(b)with contributions
    - Idaho - PERSI has a 401(k) available for teachers and other PERSI members that has good low fee investment options but at this time do not have Target Date Retirement Funds. This is a great place to save for retirement.

- Traditional or Roth IRA: A Traditional or Roth IRA is an Individual Retirement Account (IRA) where almost anyone can open an account and contribute regardless of their employer's plan options. In 2024, individuals can contribute $7,000 per year or $8,000 per year if you are over age 50.

- **Traditional IRA** - the money is contributed "pre-tax". The money that you contribute is tax deductible and decreases your taxable income for the year. Taxes are paid on the money when it is withdrawn after age 59½.
- **Roth IRA** - the money is contributed "after taxes" have been paid on it. It grows tax free and when taken out after age 59½ no taxes are paid.
  - There are some income limits, very low (~<$10,000) and very high (~>$150,000) income earners may not be able to qualify for this type of accounts. There are complicated ways around these income limits such as a "backdoor" roth contribution.

- Health Savings Account (HSA) is designed as a savings account for medical expenses but can be used as a powerful tax advantaged retirement investment account if set up correctly. In 2024, if you have a High Deductible Health Plan (HDHP >$1600 individual or >$3200 families) then contributions of up to $4,150 individual or $8,300 for families can be made to your HSA this year. For over 55 an additional $1,000 catch up contribution is allowed.
  - HSA are Triple Tax Advantaged!
    - Pre-Tax contributions
    - Contributions are free from the social security and medicare payroll deductions a savings of 7.65%
    - Savings grow tax free
    - Withdrawal for medical expenses (before or during retirement) are tax free. After age 65 withdrawals for non medical expenses are taxed as income.
  - Contributions need to be transferred to a low fee mutual fund in an HSA investment account such as HealthEquity.com.
  - Health care expenses are averaging annual increases >7%, so paying for health care is a major consideration. Even more so if you plan to retire before age 65 (when Medicare starts).
  - Your first priority is to get the best health insurance plan that you need for you and your family but if that is a High Deductible Health Plan (HDHP) then use it as a long term retirement account by paying for medical expenses out of pocket and using your HSA for long term retirement savings and medical expenses in retirement.

Prioritizing Retirement Savings Account Contributions:

Assuming you have good investment company options for these accounts then max out the savings of the plan at the top of the list before moving down the list.

1. Employer Sponsored Matching. If your employer will match 3-4% into any of the retirement accounts then maximizing this benefit and claiming this FREE money is the first priority.
2. HSA - if you use it as a retirement account.
3. 457(b) - Being able to withdraw from this account after you separate service (quit) instead of at age 59 ½ gives it an advantage over other retirement accounts especially if planning on an early retirement.

4. 403(b) or 401(k) or Individual Roth IRA

When to Contribute Pre-tax versus Post-tax (aka Roth):

<table>
<tr><th colspan="3">Pre and Post Tax Comparison</th></tr>
<tr><th>Pre-Tax</th><th>vs</th><th>Post Tax (aka Roth)</th></tr>
<tr><td>Contributions come out of your paycheck before federal and state taxes are paid. Contributions reduce your tax bill for that year.</td><td></td><td>Contributions come out of your paycheck after federal and state taxes are paid.</td></tr>
<tr><td>PROs:
● You avoid taxes in the year you contribute.
● A big contribution can have a small impact on your wallet and reduce your paycheck by only a small amount.
● Higher contribution amounts allow your retirement account balances to grow faster and interest to compound faster.</td><td></td><td>PROs:
● Withdrawals during retirement including the earnings are exempt from Federal and most State taxes!
● It’s flexible: you can withdraw contributions early if you need the money (subject to some rules).
● At age 73, you don’t have to take withdrawals (Required Minimum Distributions, RMD’s)</td></tr>
<tr><td>CON: When the money is withdrawn at retirement Federal and State Income Taxes must be paid on both the initial investment and the earnings.</td><td></td><td>CON: Contributions do NOT reduce your tax liability the year you contribute.</td></tr>
<tr><td>Use a paycheck comparison calculator to see how a BIG Contribution can have a SMALL impact on your paycheck. A $1500 pre-tax contribution reduces your paycheck by $1000 or less.</td><td></td><td></td></tr>
<tr><td colspan="3">Questions to ask / ponder:
● Will your earnings and taxes be more in retirement than now? It is a very hard question to answer but if your earnings and taxes will be higher in retirement then contribute Post-Tax/Roth and if they are higher now then contribute Pre-Tax.
● The state you live in both now and in the future matters here. Living in Wyoming with no state income taxes it is probably advisable to make contributions be post-tax/Roth.
● Are you behind on retirement savings? If so pre-tax savings are probably advisable
● Do you still earn and live on a NOLS instructor-esque (small) salary? If so, post-tax savings are probably advisable.</td></tr>
</table>

Federal Taxes and Pre-Tax versus Post-Tax Retirement Savings Decisions:

The chart below shows the combination of the Standard Deduction + 10% + 12% Federal Income Tax Rate. All income above the amount listed below will be taxed at 22% or higher for the Federal

Rate. In Wyoming, there is no state income tax but in Idaho there is an additional 5.8% of State Income taxes to factor in. This chart can be helpful in deciding whether to designate tax advantaged retirement savings contributions as either Pre-Tax or Post-Tax/Roth.

- If your Adjusted Gross Income will be **below** the amount shown then retirement saving should generally be Post-Tax / Roth contributions
- If your Adjusted Gross Income will be **above** the amount shown then retirement savings should generally be Pre-Tax contributions.

2024 Federal Tax Info for Pre or Post Tax Saving Decisions		
Standard Deduction + 10% + 12% Federal Income Tax Rate		
Single or Married Filing Separately No Children	Married Filing Jointly (MFJ) No Children	Married Filing Jointly (MFJ) With Children
$61,750	$123,500	$123,500

Where to Save and What Types of Funds to Choose:

1. Accounts should be at a reputable low fee company such as Vanguard.
    a. Low fee means annual fees are significantly less than .5% and many are less than .10%.
    b. Research has shown time and time again that choosing low fee index funds out performs actively managed high fee accounts. I.e. You do not need a "stockbroker" and any financial advisor you work with should be a fiduciary who works "Fee Only" and is not paid by commission or by a percentage of assets.

But wait.... What the hell is an index fund?

An index mutual fund tracks the performance of a specific market benchmark—or "index," like the popular S&P 500 Index—as closely as possible. That's why you may hear people refer to indexing as a "passive" investment strategy. Instead of hand-selecting which stocks or bonds the fund will hold, the fund's manager buys all (or a representative sample) of the stocks or bonds in the index it tracks. A target date retirement fund is a collection of stock and bond index funds that adjust the risk lower the closer you get to the "target date" for retirement.

Index and Target Date Retirement Funds have an incredible track record as very low fee, long-term investment strategies.

2. What type of funds to choose has gotten so much simpler! Unless you want to learn a lot more and spend time rebalancing every year then simply choose a Target Date Retirement Fund with a date that is close to the year you plan on retiring or using the money (examples at Vanguard). All reputable companies have these funds and they have very low fees ~.10%. Target date funds are automatically rebalanced to become more conservative the closer you get to retirement. They are offered both at Vanguard and at the Wyoming Retirement System through BlackRock.

How much do you need in retirement and how are you going to get there?

- There are lots of online calculators like the [Ultimate Retirement Calculator] that can give you a much better idea of how much savings you need and what you must do to get there.
- Future investing returns are always uncertain but a starting point what's known as the 4% rule. The 4% rule (or more conservatively 3.5%) says that you can safely withdraw 4% of your retirement savings, adjusted for inflation each year without running out of money. For example, if you have $1,000,000 saved by the time you reach retirement then each year you can withdraw $40,000 without losing the principal - your $1,000,000 investment ($1,000,000 x .04 = $40,000).
    - Savings Goal Calculator Investing $2,000 per month for 20 years combined with a interest rate of 7% will be end up $1,000,000
    - Compound Interest Calculator. Want to try different starting amounts, monthly contributions, length or time or rates of return? Use the Compound Interest Calculator

Next Steps - My Financial Planning To Do List:

My Financial Planning To Do List

Today's date is: ____________

- ☐ Schedule a meeting with Trevor Deighton - optional if you can follow these steps on your own. (trevordeighton@gmail.com). Completion date: Today.
- ☐ Contact your employer to see what retirement accounts and investment companies are available to you. Completion date: 1 week from today.
- ☐ Decide upon your personal plan - completion date: 30 days from today.
- ☐ Open a retirement account at a reputable investment company. Completion date: 30 days from today.
- ☐ Set up direct withdrawal contributions from your paycheck to your retirement account. Completion date: 30 days from today.
- ☐ Set a yearly calendar reminder to review your plan and increase your retirement contributions.

Additional To Do Items From My Plan:

- ☐
- ☐
- ☐
- ☐
- ☐