



WisMed Financial

Beyond Your Clinical Career

A Mini-Course for Advocate Aurora

Download today's slides:
WisMedFinancial.org/Aurora

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Agenda

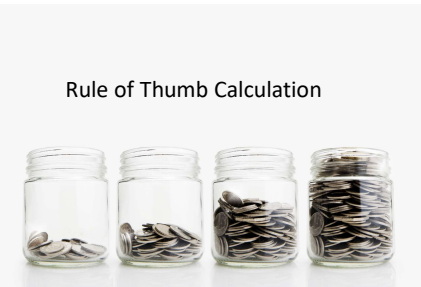
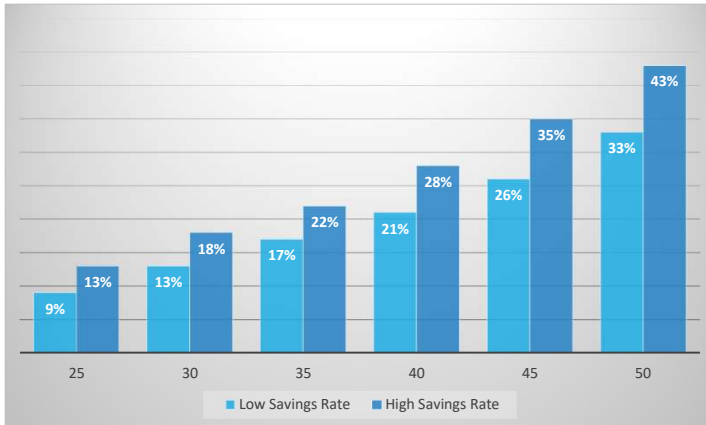
Are my investments on track for retirement?

- How much to save and in which accounts
- Calculating your retirement income
- Investment strategies and minimizing tax on returns



How much and
which
accounts?

Savings Rates by Starting Age



<https://www.schwab.com/learn/story/4-retirement-rules-thumb-explained>
 Schwab Center for Financial Research, using inflation and return forecasts from Schwab's 2023 Long-Term Capital Market Expectations.

Retirement Assets as a Multiple of Gross Income



Rule of Thumb Calculation



<https://www.schwab.com/learn/story/4-retirement-rules-thumb-explained>
 Schwab Center for Financial Research, using inflation and return forecasts from Schwab's 2023 Long-Term Capital Market Expectations.



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How much will you spend?

Annual income at retirement	Estimated replacement percentage
<\$50,000	80%
\$50,000-\$80,000	75%
\$80,000-\$120,000	70%
>\$120,000	55%-65%

Fidelity Viewpoints. (2021, Sept. 24). *How much will you spend in retirement?* Fidelity.
<https://www.fidelity.com/viewpoints/retirement/spending-in-retirement>



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How much will you spend?

Use your monthly living expenses as a place to start and adjust for...

- Paid off mortgage
- Decrease life and disability insurance
- Increase for possible LTC insurance
- Health insurance costs before/after 65
- Changes to lifestyle



Credit: Pixabay



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Basic Retirement Calculator

Use 4 F Budget for calculator inputs



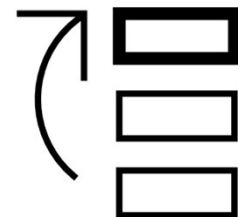
<https://www.dinkytown.net/java/retirement-planner-calculator.html#>



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Which Account? Investing Priority Order

1. Employer retirement plan to maximum match
 2. Employer retirement plan to contribution maximum
 3. Roth IRA or Backdoor Roth IRA
 4. Health Savings Account (requires high deductible health plan)
 5. Taxable investment account
 6. College savings for children
- 2, 3, and 4. can be interchanged depending on personal circumstances





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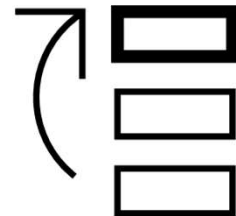
Which Account? Investing Priority Order

1. Employer retirement plan to maximum match
2. Employer retirement plan to contribution maximum = \$23,000 or \$30,500 if age 50+ for 2024
 - a. 401(k) / 403(b)
 - i. Pretax contribution = reduces current taxable income, but pay taxes on withdrawals in retirement
 - ii. Roth contribution = no reduction of current taxable income, but tax-free withdrawals in retirement
 - b. 457 Deferred Compensation
 - i. Caution: Non-governmental plans are typically an asset of the employer until paid to the employee.

Typical strategy for 2024

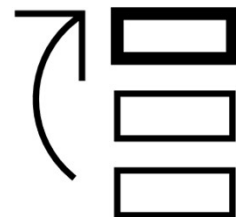
- Roth contribution
- Pretax or Roth
- Pretax contribution

FEDERAL INCOME TAX		
TAX RATE	MFJ	SINGLE
10%	\$0 – \$23,200	\$0 – \$11,600
12%	\$23,201 – \$94,300	\$11,601 – \$47,150
22%	\$94,301 – \$201,050	\$47,151 – \$100,525
24%	\$201,051 – \$383,900	\$100,526 – \$191,950
32%	\$383,901 – \$487,450	\$191,951 – \$243,725
35%	\$487,451 – \$731,200	\$243,726 – \$609,350
37%	Over \$731,200	Over \$609,350



Investing Priority Order

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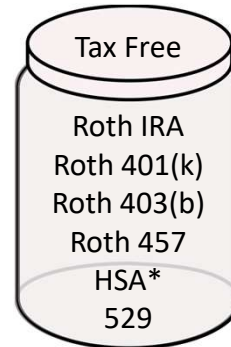
Account Types



Ordinary Income Tax



Ordinary Income or Capital Gain Tax



No Tax

* Tax free for qualifying health expenses



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Roth IRA / Roth 401(k)

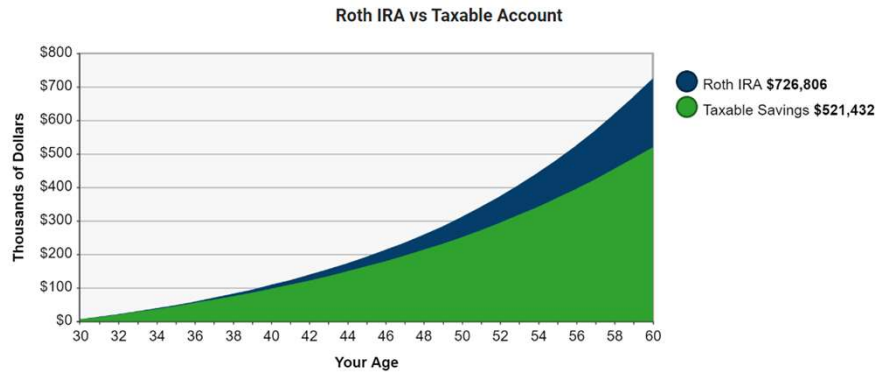
Pay tax on the seed,
everything else is tax free!



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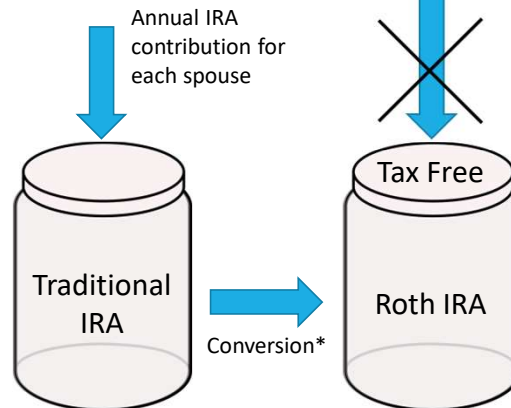
Roth IRA

30-year-old, maximum contribution yearly, 7% return
 = \$205,374 tax savings per person!



Backdoor Roth IRA

Traditional IRA contributions and conversions to Roth IRA are allowed with any income.



ROTH IRA ELIGIBILITY	
SINGLE MAGI PHASEOUT	\$146,000 - \$161,000
MFJ MAGI PHASEOUT	\$230,000 - \$240,000

*If you have an existing IRA balance (SIMPLE, SEP, or traditional IRA) an additional step is needed first.



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Backdoor Roth IRA

“Cream in the coffee”

Each person adds up all IRAs they own

Coffee = pretax dollars

Cream = after-tax dollars (nondeductible dollars, IRA basis)

Check tax return form 8606 for amount of after-tax dollars



Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs

Attach to 2023 Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form8606 for instructions and the latest information.

Name. If married, file a separate form for each spouse required to file 2023 Form 8606. See instructions.

OMB No. 1545-0074

2023

Attachment
Sequence No. **48**

Your social security number

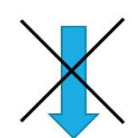
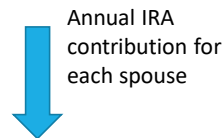
"Happy Coffee Bar Time" by Craig Anderson is licensed under CC BY-NC-ND



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Backdoor Roth IRA

During a conversion, proportional amount of pretax and after-tax is converted and tax is owed on pretax portion.

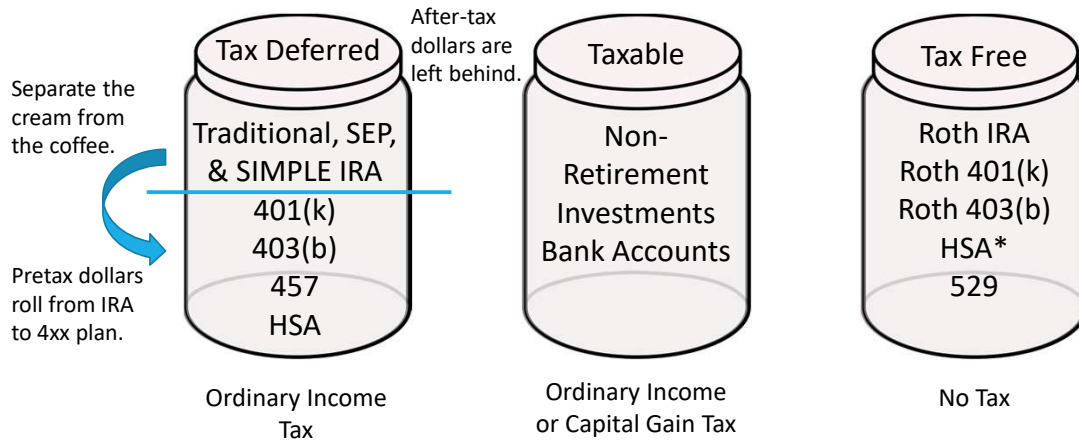


Mix of pretax and after-tax



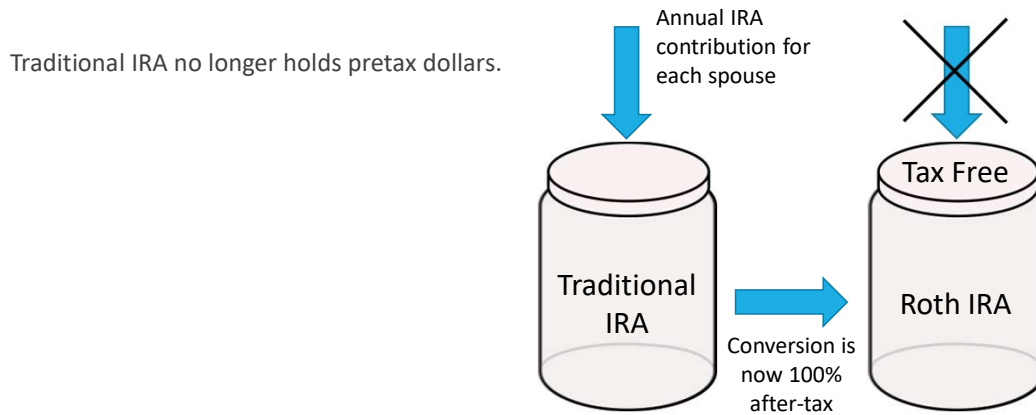
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Account Types



* Tax free for qualifying health expenses

Backdoor Roth IRA





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Tax Reporting – IRA Contribution

Investors have until April 15th 2024 to make IRA contribution for 2023.

Therefore, tax form 5498 is mailed in May 2024 to prepare 2023 tax return.

File 2023 tax return before 5498 arrives, just remember to include the IRA contribution.

CORRECTED (if checked)

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)	OMB No. 1545-0747	IRA Contribution Information
		\$		
		2 Rollover contributions	Form 5498	Copy B
		\$		
TRUSTEE'S or ISSUER'S TIN		3 Roth IRA conversion amount	4 Recharacterized contributions	For Participant
PARTICIPANT'S TIN		\$	\$	
PARTICIPANT'S name		5 FMV of account	6 Life insurance cost included in box 1	This information is being furnished to the IRS.
Street address (including apt. no.)		\$	\$	
City or town, state or province, country, and ZIP or foreign postal code		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>	9 SIMPLE contributions	
		8 SEP contributions	\$	
		10 Roth IRA contributions	11 If checked, required minimum distribution for 2022 <input type="checkbox"/>	
		\$		
		12a RMD date	12b RMD amount	
		\$	\$	
		13a Postponed/late contrib.	13b Year	13c Code
		\$		
		14a Repayments	14b Code	
		\$		
Account number (see instructions)		15a FMV of certain specified assets	15b Code(s)	
		\$		

Form 5498 (keep for your records) www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service



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Tax Reporting – Roth Conversion

1099-R arrives in Jan. for prior year's conversions.

Box 2a will show a dollar amount and box 2b checked because the investment company doesn't know your IRA has after-tax dollars.

When tax return form 8606 is calculated, the taxable amount of the conversion will be \$0.

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution	OMB No. 1545-0119	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		\$		
PAYER'S TIN		2a Taxable amount	Form 1099-R	Copy 1
RECIPIENT'S TIN		\$		
RECIPIENT'S name		2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>	3 Capital gain (included in box 2a)	For State, City, or Local Tax Department
Street address (including apt. no.)		\$	\$	
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld	5 Employee contributions/ Designated Roth contributions or insurance premiums	
		\$	\$	
		6 Net unrealized appreciation in employer's securities	7 Distribution code(s)	8 Other
		\$	IRA/SEP/SIMPLE <input type="checkbox"/>	\$ %
		9a Your percentage of total distribution %	9b Total employee contributions	
		\$ %	\$	
10 Amount allocable to IRR within 5 years	11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	13 Date of payment	14 State tax withheld
\$	\$	\$	\$	\$
Account number (see instructions)	15 State/Payer's state no.	16 State distribution	17 Local tax withheld	18 Name of locality
\$	\$	\$	\$	\$

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

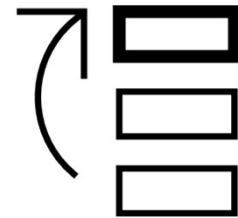


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Investing Priority Order

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2. Employer retirement plan to contribution maximum
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2, 3, and 4. can be interchanged depending on personal circumstances



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HSA – Triple Tax Advantage

Tax-deductible contribution

- \$3,850 self or \$7,750 family in 2023
- Extra \$1,000 age 55+
- Deadline is 4/15/2024
- \$4,150 self or \$8,300 family in 2024
- Extra \$1,000 age 55+
- Deadline is 4/15/2025

Tax-deferred growth

Tax-free distributions

After age 65, HSA distributions for living expenses are taxed exactly like a pretax retirement account.



"HSA - Health Savings Account acronym with medical concept background" by freemove.com is licensed under CC BY 2.0

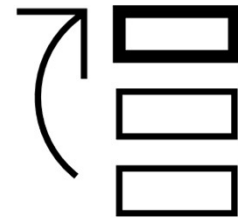


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Investing Priority Order

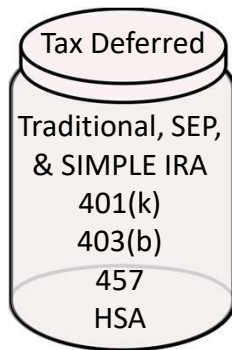
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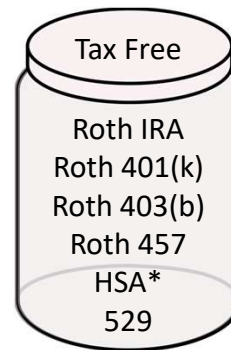
Account Types



Ordinary Income
Tax



Ordinary Income
or Capital Gain Tax



No Tax

* Tax free for qualifying health expenses





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Account Types

Account Title
 Individual
 Individual TOD
 Joint WROS
 Joint Tenant in Common
 Trust name



Ordinary Income
 or Capital Gain Tax

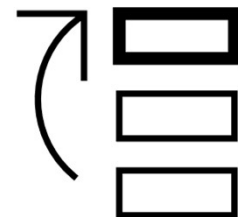


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Investing Priority Order

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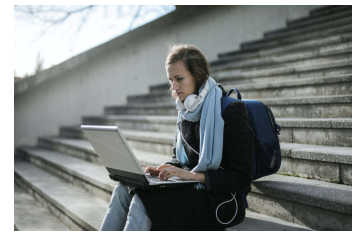


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Saving for Kids' College – How much?

Family formula examples:

- Parents pay full cost regardless of school
- Child expected to pay for some/all to have “skin in the game”
- Parents pay for equivalent of 4 years of a UW system school and child pays for excess
- Start at lower cost community college and transfer to University to finish degree?
- Parents pay if GPA is above x?



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529 College Savings Account

- Owner controls the account. Beneficiary is person with education expenses.
- Beneficiary can be changed to any family member.
- WI income tax deduction for 2024 up to \$4,000 per beneficiary (Edvest 529 only).
- Tax deferred growth
- Tax free distributions for qualified expenses
 - 100% of tuition and fees for college, apprenticeships, and up to \$10,000 per year for K-12.
 - Books and supplies
 - Computer and internet
 - Room and board

EDVESTSM₅₂₉
Your Partner in Saving for Higher Education

529 College Savings Account

What if beneficiary doesn't need the money?

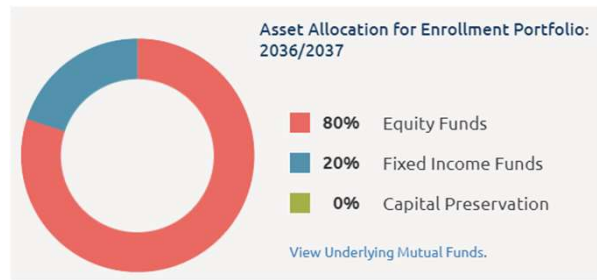
- Beneficiary can be changed to any family member including:
 - o step siblings
 - o niece/nephew and their spouse
 - o first cousins and their spouse
 - o future grandchildren
- Distributions equivalent to amount of scholarship is penalty free
- Up to \$10,000 can be used to pay student loans
- Distributions for other expenses would incur income tax and 10% penalty, but only on the growth. Withdrawal of principal is always tax free and penalty free.



529 College Savings Account

Choose your investment mix

Select Your Enrollment Year



Equity Fixed Income Capital Preservation

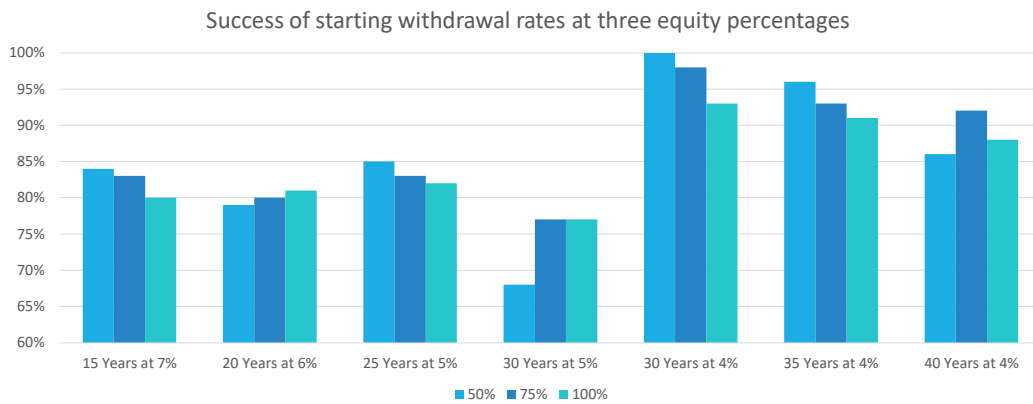
<https://www.edvest.com/research/enrollment-year.php>



Calculate your retirement income



Basic Withdrawal Rates



Adapted from RBC Wealth Management. (2018). *Sustainable withdrawal rates in retirement*. <https://www.rbcwm-usa.com/resources/file-687839.pdf>



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Sample

EXAMPLE

Spend \$100,000 net (approx. \$120,00 gross) in retirement.

+\$3,000 Social Security

+\$2,000 Social Security

+\$5,000 Investments

= \$10,000 gross per month

PORTFOLIO SIZE

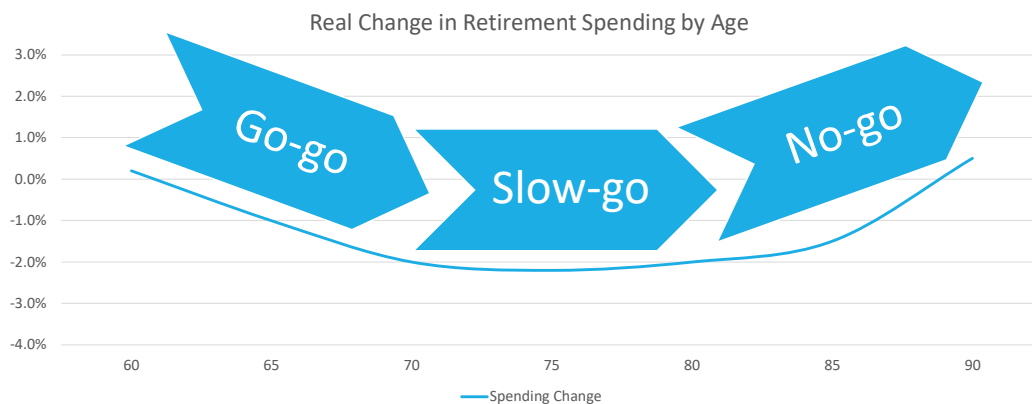
\$5,000 x 12 mo's = \$60,000 per year

\$60,000 / 4% = \$1,500,000 starting portfolio

Spending Changes



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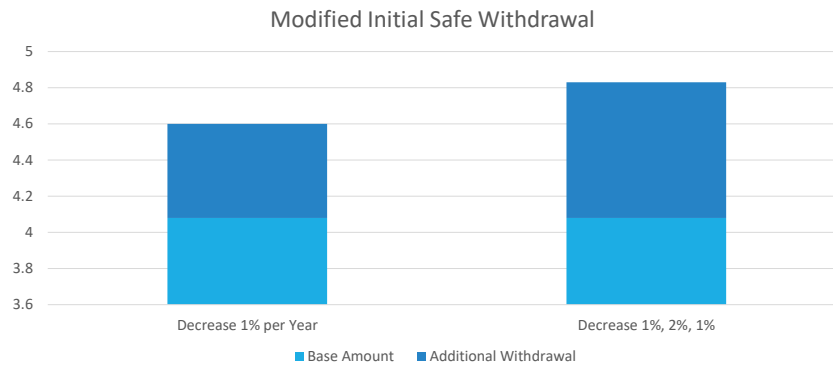
Adapted from Blanchett, D. (2013, Nov. 5). *Estimating the True Cost of Retirement*. Morningstar.
<https://www.morningstar.com/content/dam/marketing/shared/research/foundational/677785-EstimatingTrueCostRetirement.pdf>



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Ways to Increase Spending/Security

Assume Spending Will Decrease, > 4% Initial Safe Withdrawal



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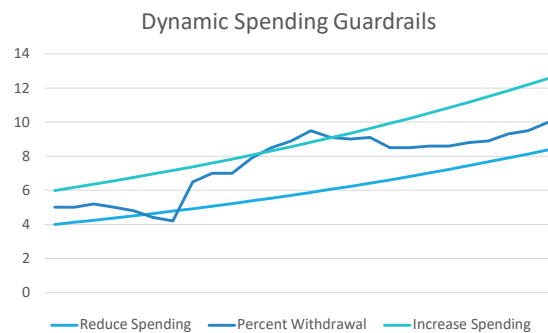
Ways to Increase Spending/Security

Flexible Spending and Guardrail Rules

Example: Initial portfolio spending of 5% (\$5,000 from \$100,000 portfolio)

Portfolio increases in value:
 \$5,000 spending is now 4% of \$125,000.
 Ratchet up spending amount.

Portfolio decreases in value:
 \$5,000 spending is now 6% of \$83,333.
 Reduce spending amount (skip increase).

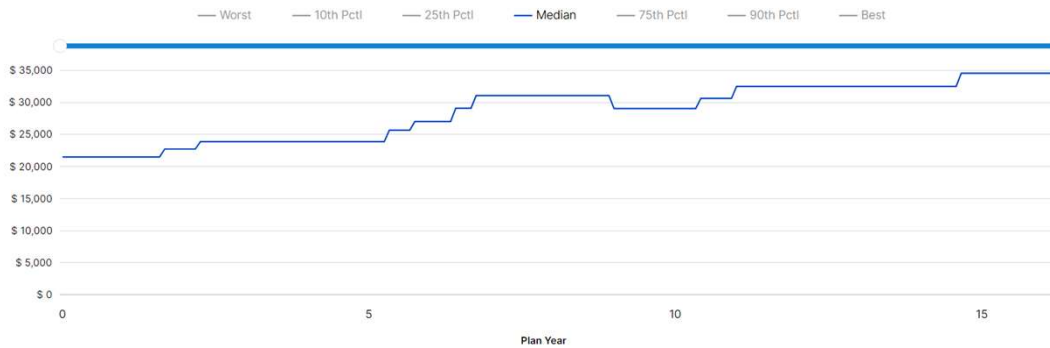


Guardrail Case Study – single age 74

Safe withdrawal rate = 8.2% from investments plus Social Security



Guardrail Case Study – single age 74





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Retirement Income Sources

Guaranteed		
Social Security		
Pension		
Immediate Annuities		
"Play" Checks		



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Retirement Income Sources

Guaranteed	Mostly Consistent	
Social Security	Bond Interest	
Pension	Stock Dividends	
Immediate Annuities	Real Estate (REIT) Distribution	
"Play" Checks	Master Limited Partnership Distribution	



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Retirement Income Sources

Guaranteed	Mostly Consistent	Variable
Social Security	Bond Interest	Capital Gains
Pension	Stock Dividends	Principal
Immediate Annuities	Real Estate (REIT) Distribution	
"Play" Checks	Master Limited Partnership Distribution	

⏟
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Spending Needs
Spending Wants



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Retirement Income Sources

\$1,000,000 balanced portfolio 60% stocks and 40% bonds = \$25,660 dividends and interest

iShares Core S&P Total US Stock Mkt ETF

NAV	Open Price	Bid / Ask / Spread	Volume / Avg
111.69	111.35	110.50 / 113.00 / 2.24%	1.1 Mil / 1.4 Mil
Day Range	Year Range	SEC Yield ⓘ	12-Month Yield ⓘ
111.26 – 111.71	84.35 – 112.14	1.39%	1.46%
Adj. Expense Ratio ⓘ	Expense Ratio	Total Assets	Category
0.030%	0.030%	52.5 Bil	US Fund Large Blend

iShares Core US Aggregate Bond ETF

NAV	Open Price	Bid / Ask / Spread	Volume / Avg
96.96	97.07	96.60 / 97.78 / 1.21%	7.9 Mil / 9.3 Mil
Day Range	Year Range	SEC Yield ⓘ	12-Month Yield ⓘ
97.01 – 97.23	91.58 – 100.98	4.33%	3.14%
Adj. Expense Ratio ⓘ	Expense Ratio	Total Assets	Category
0.030%	0.030%	101.7 Bil	US Fund Intermediate Core Bond



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Social Security

- Over 2,700 rules
- 567 separate filing strategies
- 96% of people fail to make the optimal claiming decision¹
- Missing out on \$111,000 of benefits for the average household¹

1. Fellowes, Matt, et al. *The Retirement Solution Hiding in Plain Sight*. United Income, 2019.



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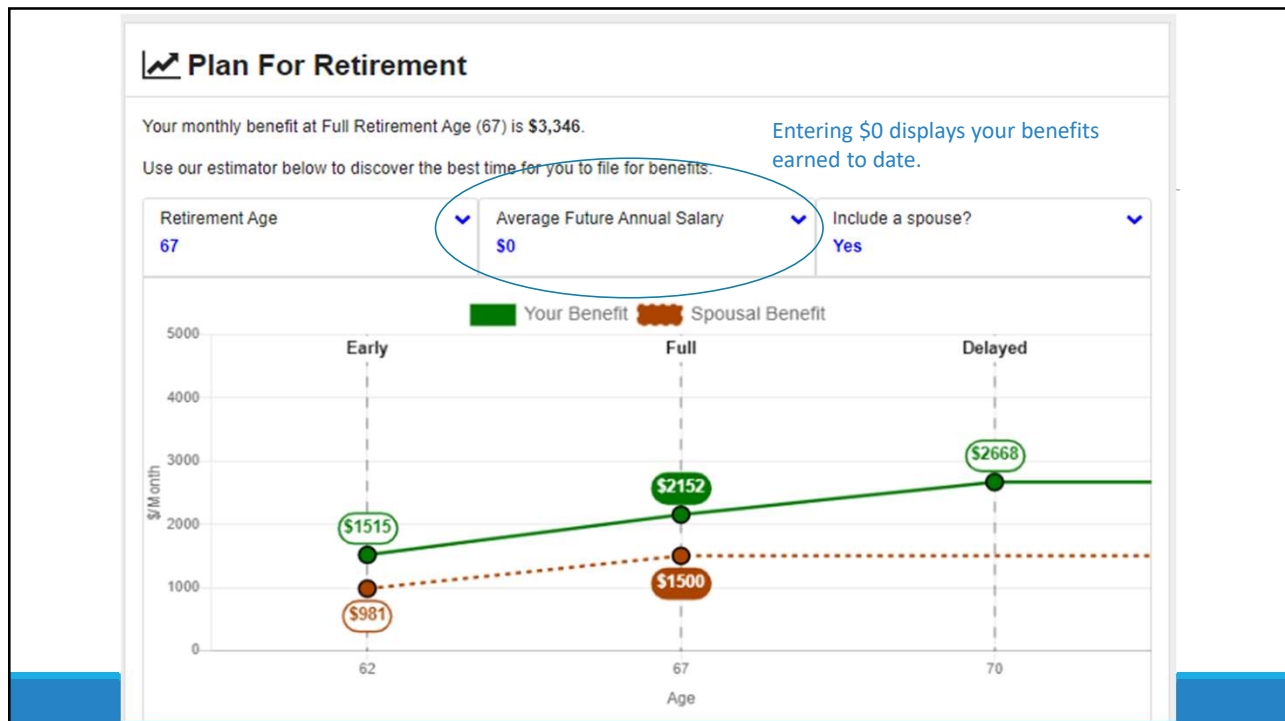
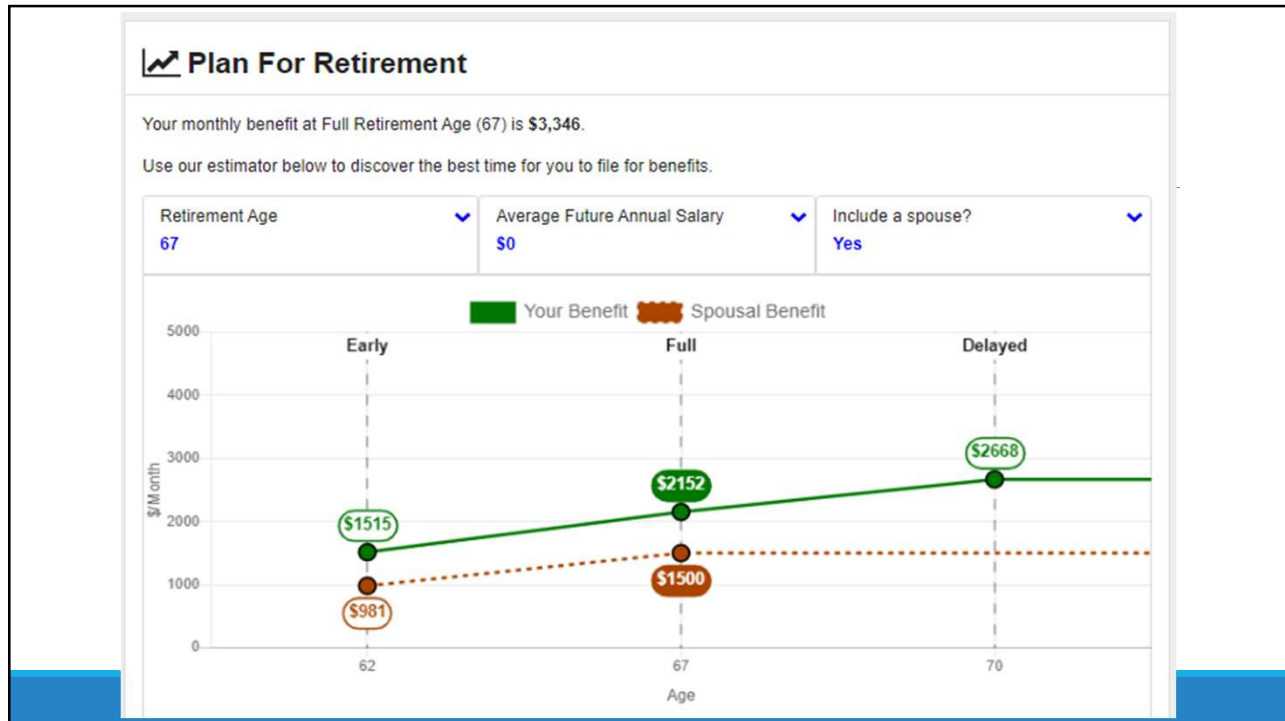
Social Security Estimates

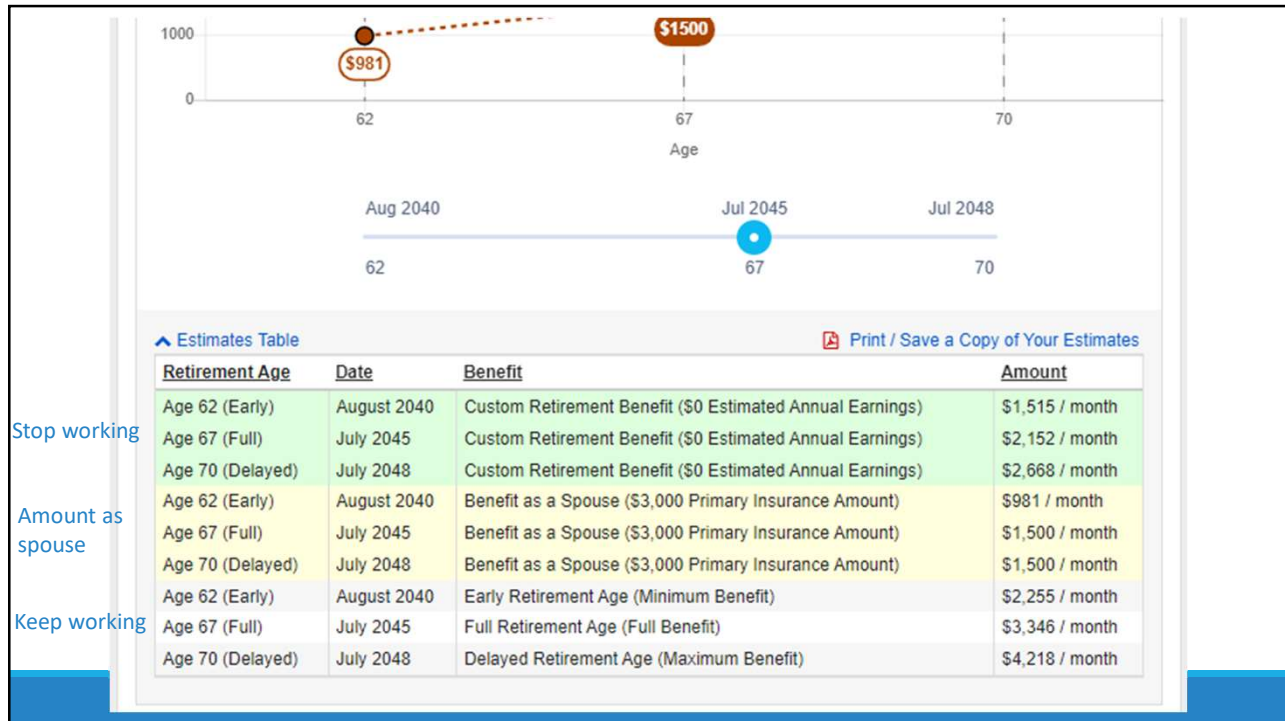


<https://www.ssa.gov/benefits/calculators/>

my Social Security Retirement Estimate

Compare retirement benefit estimates based on your selected date or age to begin receiving benefits with retirement estimates for ages 62, Full Retirement Age (FRA), and 70. You can also input expected future income for inclusion in the estimate.






Stop working

Amount as spouse

Keep working



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Social Security Benefit

- Start benefits between age 62 and 70

5% Reduction per year greater than 3 years before full retirement age

6.67% Reduction per year for 3 years before full retirement age

Full Retirement Age

8% Increase per year after full retirement age

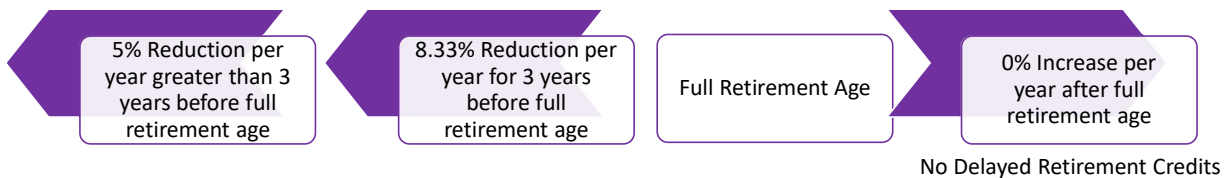
“Delayed Retirement Credit”



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Spousal Benefit

- Start benefits between age 62 and 70
- Non-working or lower earning spouse receives greater of own benefit or 50% of higher earning spouse's benefit at full retirement age (FRA)
 - Same applies to divorced couples if marriage lasted 10 years or longer and remain unmarried
- Higher earning spouse must be receiving benefit (unless divorced).
- No delayed retirement credits for spousal benefit after full retirement age.



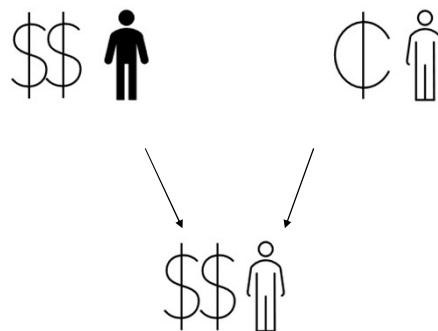
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Social Security – Survivor Benefit

Social Security Timing

Delaying the larger Social Security benefit among spouses may be beneficial since the surviving spouse keeps the larger of the two benefit amounts.

- Can start between age 60-70
- Marriage lasted at least 9 months if married or 10 years if divorced
 - If divorced, must be unmarried when file, but can remarry and keep benefit
- Can switch from survivor to own benefit or spousal benefit between 62-70





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Social Security and Net Worth

Social Security Timing

- Age 62 to 70.

- If retire at 62, should you start Social Security at 62 or live off portfolio and start at 70?

It depends.

Starting early provides a higher net worth for most of retirement but delaying provides higher guaranteed income after age 70.

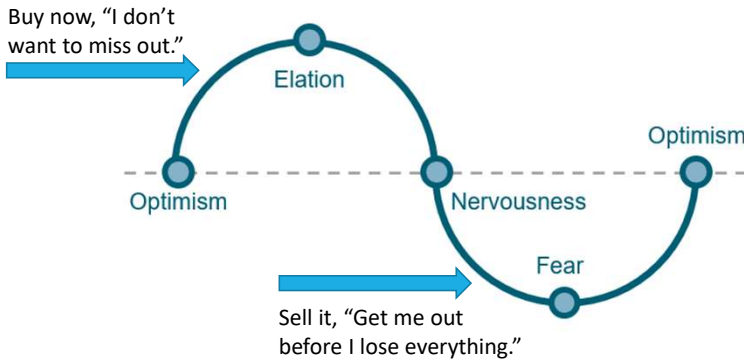
Age	Net Worth SS at 62	Net Worth SS at 70
61	\$ 1,804,196.00	\$ 1,804,196.00
62	\$ 1,942,451.00	\$ 1,910,990.00
70	\$ 2,472,578.00	\$ 1,754,928.00
80	\$ 2,647,125.00	\$ 2,128,797.00
87	\$ 2,129,690.00	\$ 2,071,932.00
88	\$ 1,997,874.00	\$ 2,029,389.00

Investment
strategies and
minimizing taxes
on returns

Many Investors Follow Their Emotions



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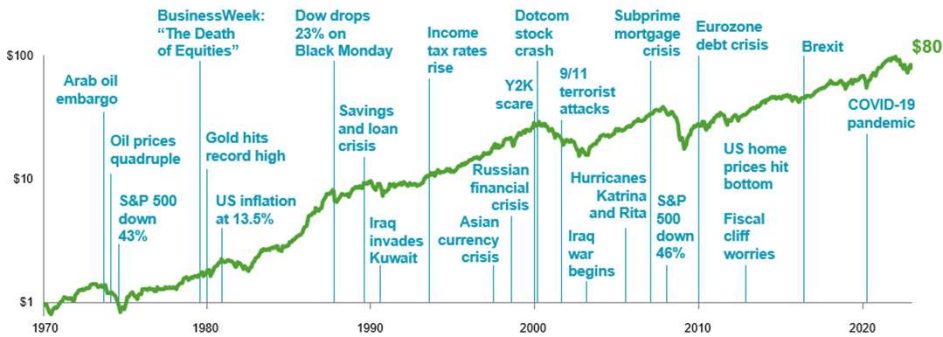
Following emotions is a lousy strategy!

"This Time It's Different" (nope, it isn't)



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Growth of a dollar—MSCI World Index (net dividends), 1970–2022



In US dollars. MSCI data © MSCI 2023. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

Investment strategy

Asset Allocation

Asset Selection

Asset Location

Asset Allocation Stock Funds vs. Bond Funds

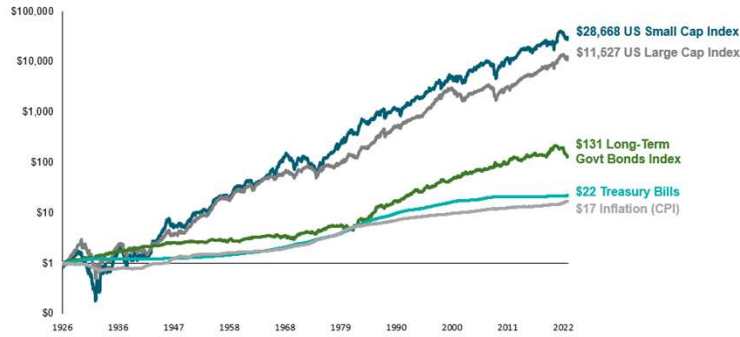




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Asset Allocation

Monthly growth of wealth (\$1), 1926–2022

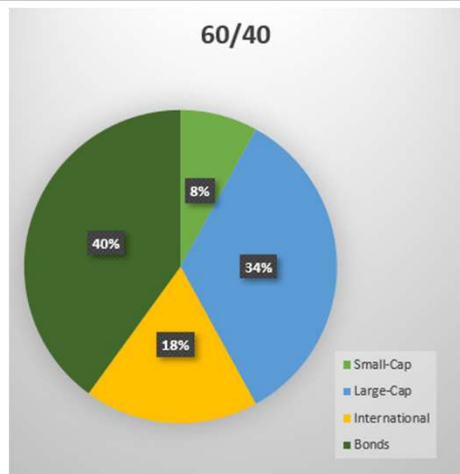


In US dollars. US Small Cap is the CRSP 6-10 Index. US Large Cap is the S&P 500 Index. US Long-Term Government Bonds is the IA S&BI US LT Gov't TR USD. US Treasury Bills is the IA S&BI US 30 Day TBILL TR USD. US Inflation is measured as changes in the US Consumer Price Index. CRSP data is provided by the Center for Research in Security Prices, University of Chicago. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. US Long-term government bonds and Treasury bills data provided by Bloomberg Associates via Morningstar Direct. US Consumer Price Index data is provided by the US Department of Labor Bureau of Labor Statistics. Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.



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Asset Allocation



Sample allocation only, not a recommendation. Please consult your advisor.



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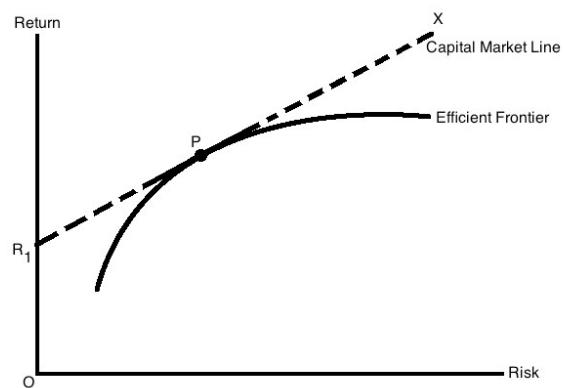
Diversification Smooths Out Some of the Bumps

Called the “only free lunch in finance” by Nobel Prize winner Harry Markowitz, investing across multiple asset classes reduces risk while sacrificing little in expected returns.



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Improving Returns – Efficient Portfolio



"The Only Combination of Risk-Free Securities with the Efficient Frontier and CML.jpg" by PortfolioAnalytics is licensed under CC BY-SA 4.0



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Asset Selection

Target date funds:

- Ideal way to start saving
- All assets with same tax status
- Years away from spending
- One fund with diversified portfolio inside

Vanguard Target Retirement 2050 Inv VFIFX ★★★★★ Morningstar Analyst Rating

Analyst rating as of Mar 13, 2020

Quote Fund Analysis Performance Risk Price Portfolio People Parent

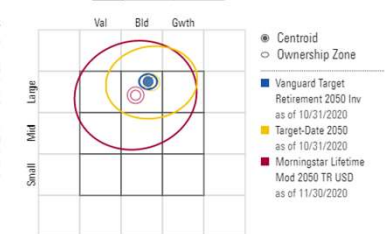
Portfolio Equity Bond

Asset Allocation

Asset Class	Net	Short	Long	Cat.	Index
U.S. Equity	53.95	0.00	53.95	54.30	55.92
Non-U.S. Equity	36.56	0.00	36.56	30.74	36.88
Fixed Income	9.33	0.07	9.41	6.20	7.13
Other	0.03	0.00	0.03	7.00	0.04
Cash	0.04	0.18	0.23	2.06	0.00
Not Classified	0.08	0.00	0.08	0.08	0.03

Fund as of Oct 31, 2020 | Category: Target-Date 2050 as of Oct 31, 2020 | Index: Morningstar Lifetime Mod 2050 TR USD as of Nov 30, 2020

Stock Style Map Weight Historical



Asset Selection

Using individual funds may be better than target date funds when:

- Spending investment soon
- Mix of accounts: tax deferred, taxable, tax free
- Varying cash flow (i.e. timing of Social Security)
- Desire for socially responsible or other investments
- Tax sensitivity
- Income generation



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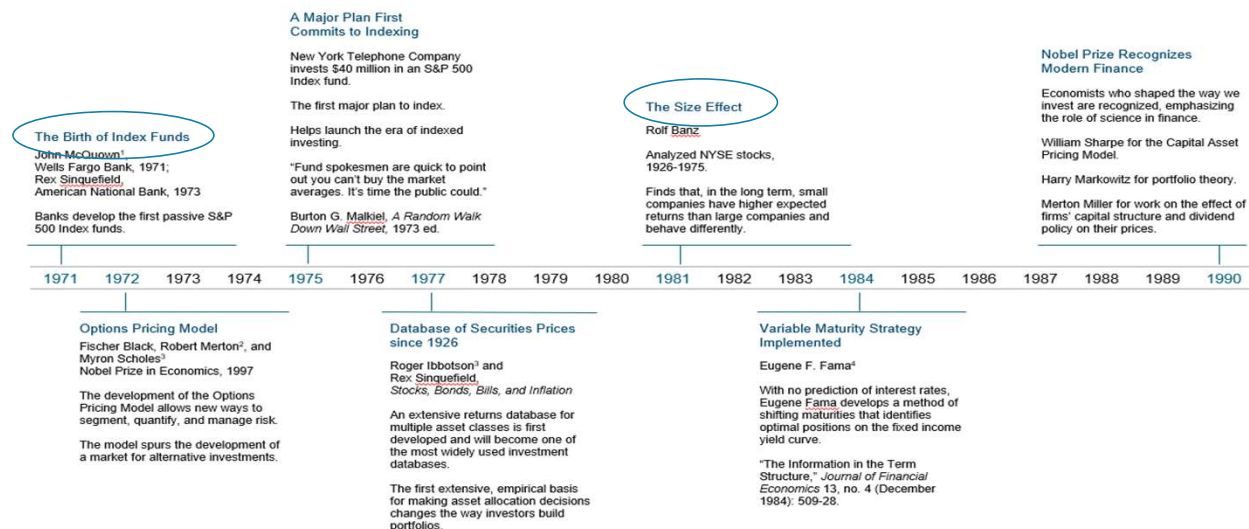
Improving on Index Investing

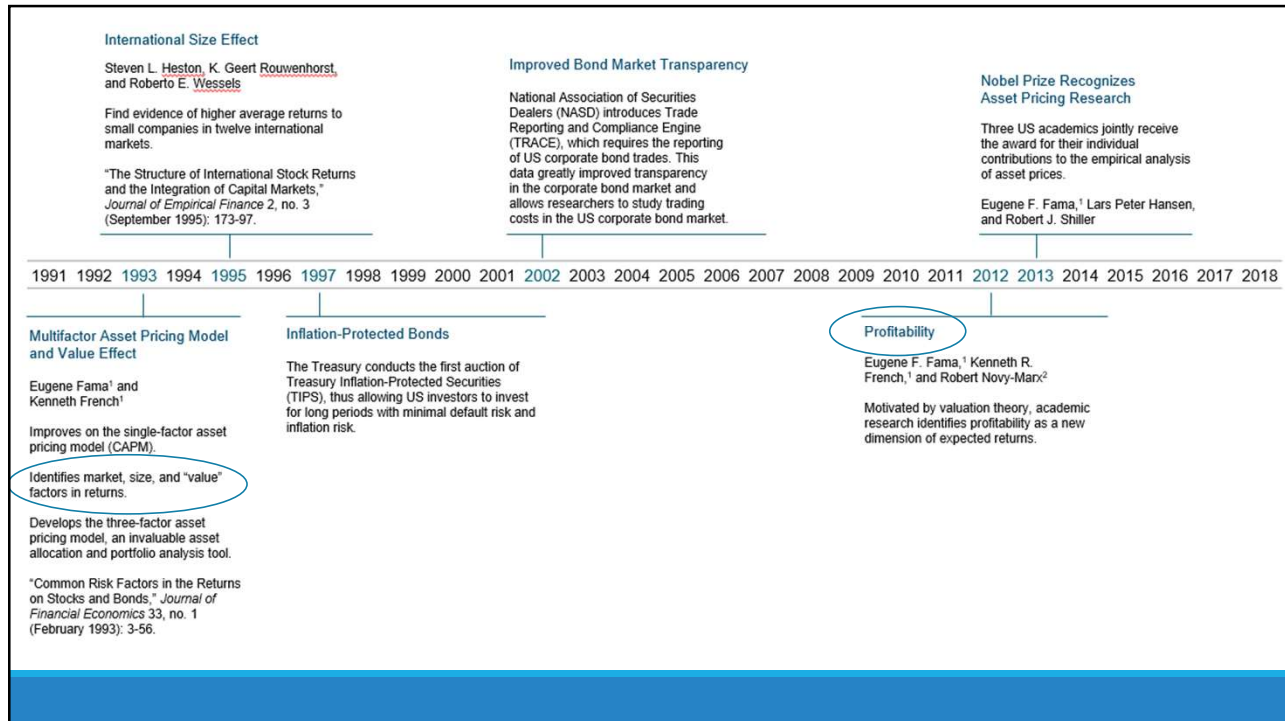
SPDR® S&P 500 ETF Trust SPY


Holdings	% Portfolio Weight	First Bought
Apple Inc	6.34	Mar 31, 2002
Microsoft Corp	5.43	May 02, 2017
Amazon.com Inc	4.39	May 02, 2017
Facebook Inc A	2.23	Dec 23, 2013
Alphabet Inc A	1.77	Mar 31, 2006
Alphabet Inc Class C	1.74	Apr 03, 2014
Berkshire Hathaway Inc Class B	1.54	Feb 28, 2010
Johnson & Johnson	1.33	Mar 31, 2002
Visa Inc Class A	1.22	Dec 31, 2009
JPMorgan Chase & Co	1.21	Mar 31, 2002

10 of the 500 companies make up 27.2% of the entire index!

Innovations in Finance







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Improving on Index Investing

Drivers of Long-Term Asset Allocation

Company Size

SIZE PREMIUM
small vs. large companies

Relative Price¹

VALUE PREMIUM
value vs. growth companies

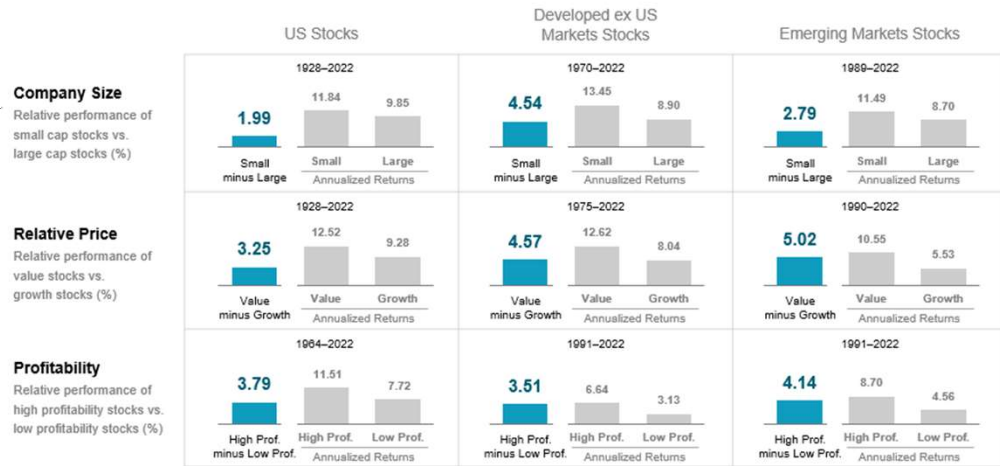
Profitability²

PROFITABILITY PREMIUM
high vs. low profitability companies

To be considered a dimension of expected return, a premium must be:

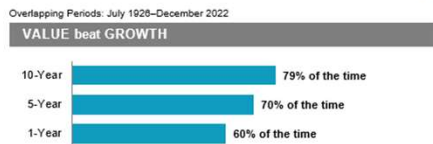
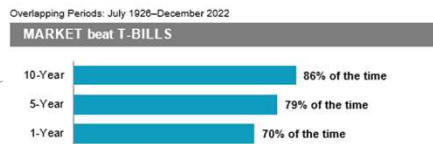
Sensible, Persistent, Pervasive, Robust, and Cost-effective

Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets



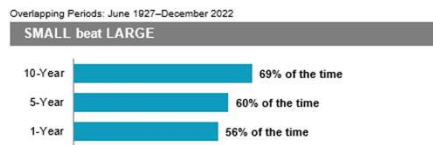
Information provided by Dimensional Fund Advisors LP.
 Past performance is no guarantee of future results. Actual returns may be lower.
 In USD. The Dimensional and Fama/French Indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. MSCI indices are gross div. For US stocks, indices are used as follows. Small Cap minus Large Cap: Dimensional US Small Cap Index minus the S&P 500 Index. Value minus Growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index. High Prof. minus Low Prof.: Fama/French US High Profitability Index minus the Fama/French US Low Profitability Index. For developed ex US stocks, indices are used as follows. Small Cap minus Large Cap: Dimensional International Small Cap Index minus the MSCI World ex USA Index. Value minus Growth: Fama/French International Value Index minus the Fama/French International Growth Index. High Prof. minus Low Prof.: Fama/French International High Profitability Index minus the Fama/French International Low Profitability Index. For Emerging Markets stocks, indices are used as follows. Small Cap minus Large Cap: Dimensional Emerging Markets Small Cap Index minus MSCI Emerging Markets Index. Value minus Growth: Fama/French Emerging Markets Value Index minus Fama/French Emerging Markets Growth Index. High Prof. minus Low Prof.: Fama/French Emerging Markets High Profitability Index minus the Fama/French Emerging Markets Low Profitability Index. S&P and S&P/TSX data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2023, all rights reserved. See "Index Descriptors" in the appendix for descriptions of Dimensional and Fama/French index data.

US Markets



Market is Fama/French Total US Market Research Index.
 T-Bills is One-Month US Treasury Bills.
 There are 1,036 overlapping 10-year periods, 1,099 overlapping 5-year periods, and 1,147 overlapping 1-year periods.

Value is Fama/French US Value Research Index.
 Growth is Fama/French US Growth Research Index.
 There are 1,036 overlapping 10-year periods, 1,099 overlapping 5-year periods, and 1,147 overlapping 1-year periods.



Small is Dimensional US Small Cap Index.
 Large is S&P 500 Index.
 There are 1,028 overlapping 10-year periods, 1,088 overlapping 5-year periods, and 1,136 overlapping 1-year periods.

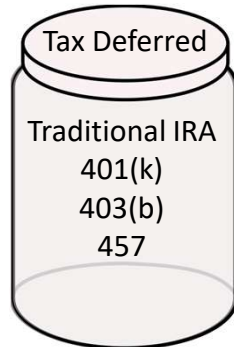
High is Fama/French US High Profitability Index.
 Low is Fama/French US Low Profitability Index.
 There are 595 overlapping 10-year periods, 655 overlapping 5-year periods, and 703 overlapping 1-year periods.

Information provided by Dimensional Fund Advisors LP.
 Past performance is no guarantee of future results. Actual returns may be lower.
 In USD. The Dimensional and Fama/French Indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Based on monthly rolling differences in annualized returns over the periods listed. Rolling multistar periods overlap and are not independent. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. "One-Month Treasury Bills" is the IA SBBI US 30 Day TR USD, provided by Morningstar. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. See "Index Descriptors" in the appendix for descriptions of Dimensional and Fama/French index data.



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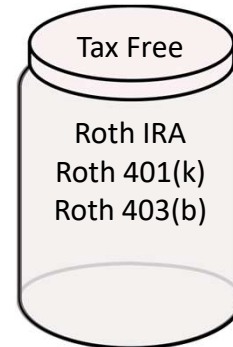
Asset Location



Ordinary Income Tax
(lower return holdings / tax
inefficient investments)



Ordinary Income or
Capital Gain Tax
(tax efficient investments)



No Tax
(high return
investments)



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Thought Experiment

3 accounts with \$100,000 each, grow for 10 years.

Fund A, 10% return, capital gain

Fund B, 5% return, ordinary income

Fund C, 5% return, capital gain

Which account should you buy each fund?



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Asset Location

B, 5%, ordinary income
\$100,000



\$162,889
- \$49,306 tax
=\$113,582 net

C, 5% capital gain
\$100,000



\$162,889
- \$12,194 tax
= \$150,695 net

A, 10% capital gain
\$100,000



\$259,374
- \$0 tax
= \$259,374 net

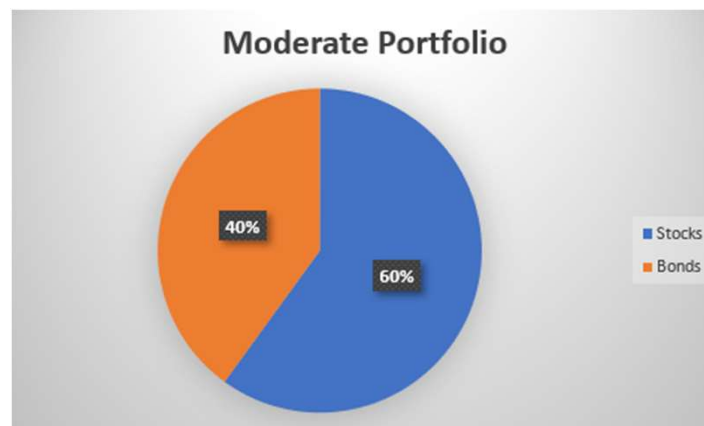
Wrong location, total net = \$487,604

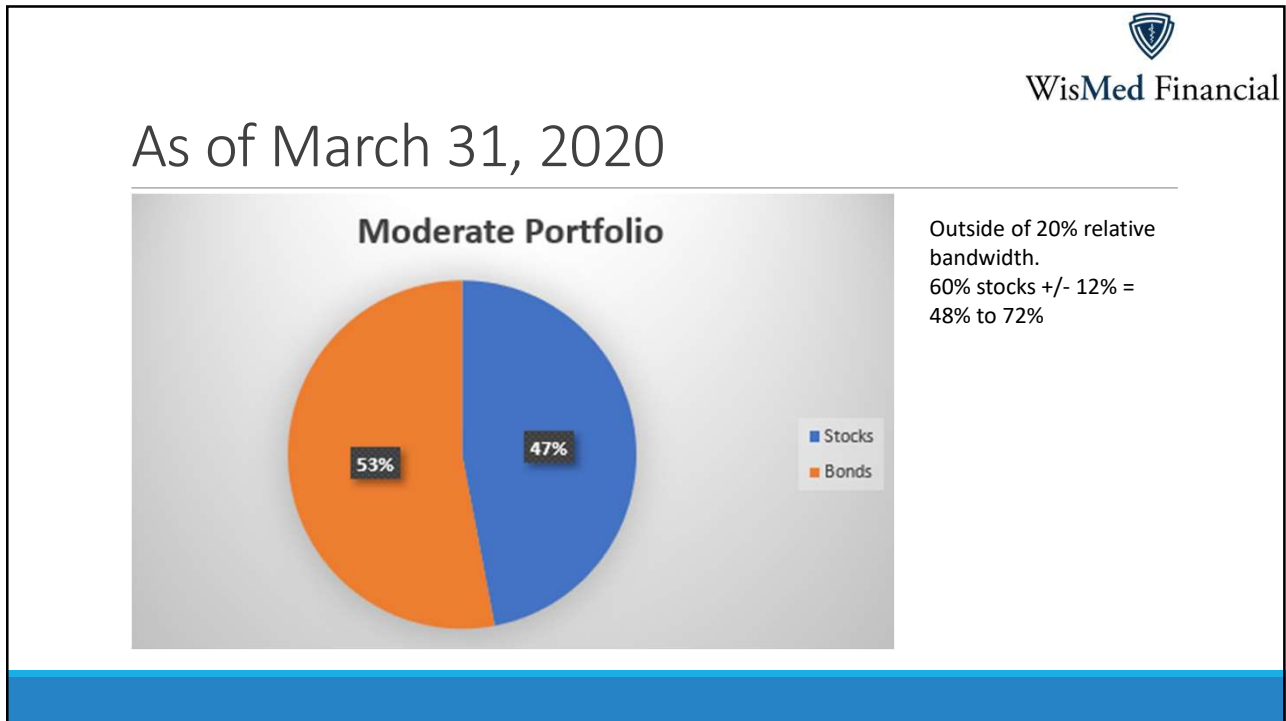
Right location, total net = \$523,652



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Improving Returns - Rebalancing







Minimize Taxes on Returns

Sell Order Accounting Method

- FIFO
- LIFO
- High Cost
- Low Cost
- Long then short term
- Other

Ordinary Income
or Capital Gain Tax

Security Turnover

- Buy/sell activity
- Mutual fund capital gain distributions
- Tax loss harvesting



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Tax Loss Harvesting (Taxable Accounts)

Bought ABC stock = \$75,000

Current value = \$52,000

Unrealized loss = (\$23,000)

Short-term gain/loss: <1 year
Long-term gain/loss: >1 year

Sell ABC to realize (\$23,000) loss on tax return

Realized gains minus realized losses = Net gain or net loss for tax return

If net loss is more than (\$3,000), excess loss is "banked" for future years.

Minimize Taxes on Returns

Income Tax	Capital Gain Tax	Tax Free
Wages	Qualified Dividends ¹	Municipal Bond Interest
Bond Interest	Long Term Capital Gain	
Real Estate Dividend		
Master Ltd. Partner Dividend		
Short Term Capital Gains		
Annuity Distribution		
Ordinary Dividends		

1. TO BE QUALIFIED, DIVIDEND MUST BE PAID BY AN AMERICAN OR QUALIFYING FOREIGN COUNTRY, CANNOT BE UNQUALIFIED, AND HELD LONGER THAN THE REQUIRED HOLDING PERIOD.

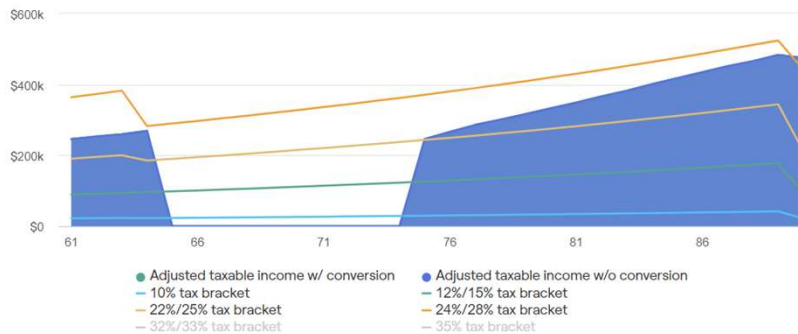


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Minimize Taxes on Returns Why do Taxes Drop then Rise?

Tax planning with Roth conversions after retirement, before RMD.

Ordinary income tax bracket ▾



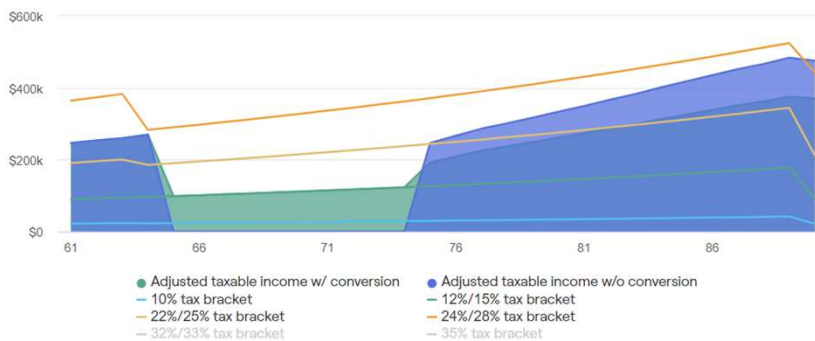
Retirement at 65 with \$2.0MM tax deferred portfolio.

Why do Taxes Drop then Rise?

Tax planning with Roth conversions after retirement, before age RMD.

Ordinary income tax bracket ▾

Proposed plan ▾



Proposed Strategy
\$1,245,935 more
tax adjusted ending
portfolio than a taxable, tax
deferred, tax free
withdrawal strategy w/o
conversion



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Q&A

- Amount to save and which accounts
- Calculating your retirement income
- Investment strategies and minimizing tax on returns

Slides at WisMedFinancial.org/Aurora



Wisconsin Medical Society

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