



Trivia Question

Q: As state employees, we are all contributing to the ERS retirement fund (including contributions by our agency). When you retire, your ERS annuity may only replace what percent of your salary? Is it:

1. 80%,
2. 50%
3. 30%

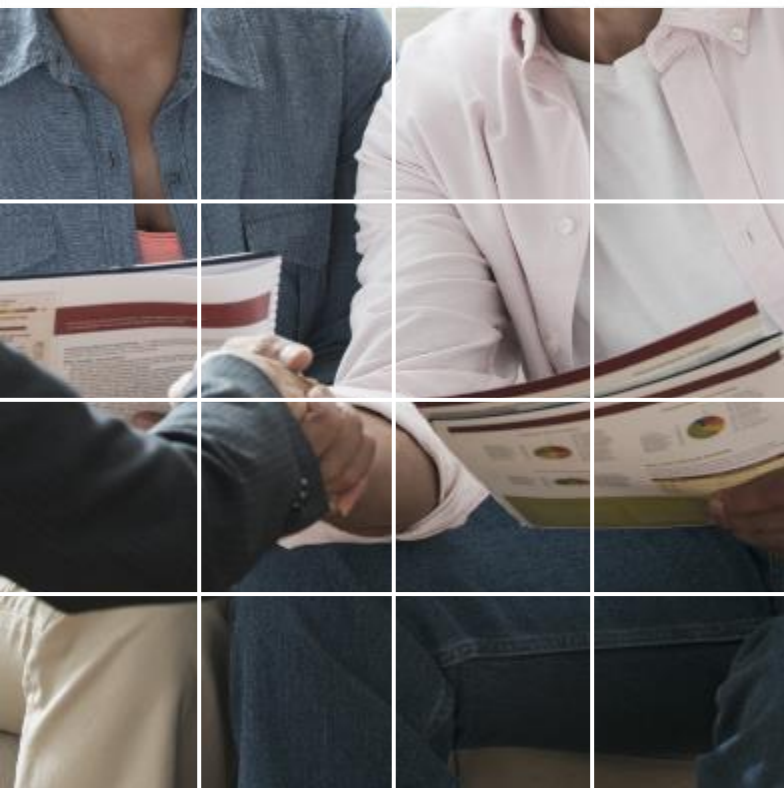


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2. 50%
3. 30%

A: 50% or half of your working salary! Which is why we are here today...to learn How to Thrive Financially!



ACHIEVING FINANCIAL GOALS



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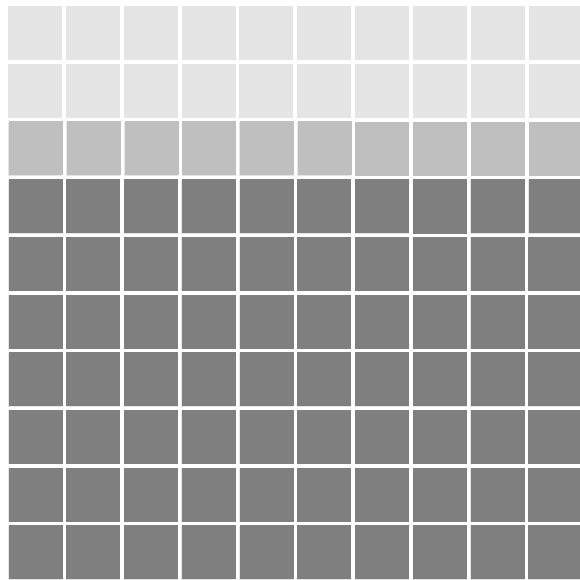
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FINANCIAL GOALS: Defining Goals, Achieving Goals & Managing Competing Goals





Many planners suggest trying to live on

70%–80%

of your salary while saving for goals.



ACHIEVING FINANCIAL GOALS



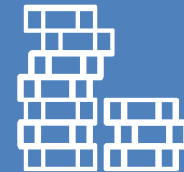
DEFINING A FINANCIAL GOAL



What you are
saving for?



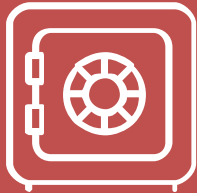
When do you want
to buy it or
achieve the goal?



How much will it
cost at that time?



ACHIEVING A FINANCIAL GOAL



How much
to save?



What account
to use?



Investment
strategy



WHICH ACCOUNTS TO USE



For retirement and college savings, a **tax benefit** can be received if the savings are directed to certain qualified accounts.



RETIREMENT

RETIREMENT SAVINGS: HOW MUCH?



15%

Investors should strive to

**SAVE
AT LEAST 6%**

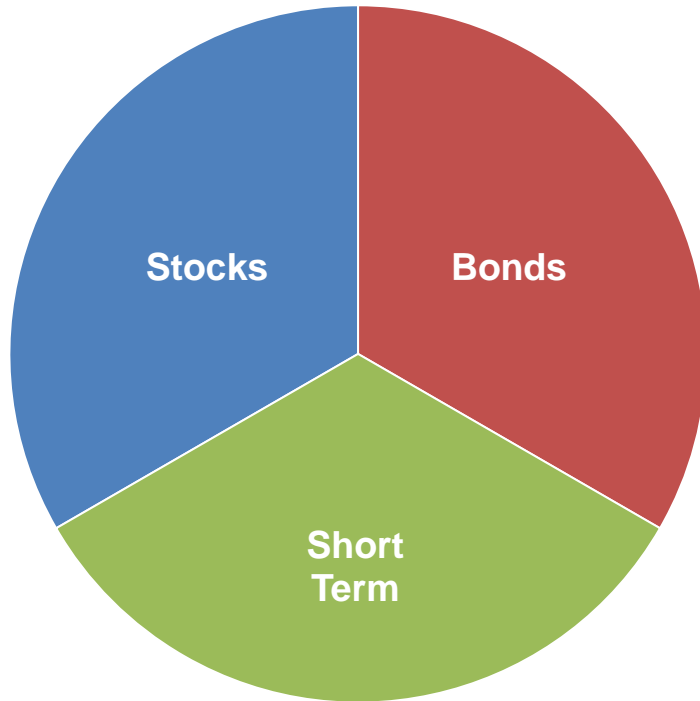
Consider increasing contributions by 2% gradually to build toward a 15% target

Investor's Age:	Savings Benchmarks:
30	half of salary saved today
35	1x salary saved today
40	2x salary saved today
45	4x salary saved today
50	6x salary saved today
55	8x salary saved today
60	10x salary saved today
65	12x salary saved today

Assumptions: Individuals have saved (from age 25 to a retirement age of 65) 15% of their annual salary (increased by 3% each year) in a tax-deferred retirement account with a preretirement portfolio consisting of 60% stocks/30% bonds/10% short-term bonds, changing to 40% stocks/40% bonds/20% short-term bonds during retirement. Gross retirement income through age 95 is estimated to equal 75% of preretirement salary, consists of annual retirement account withdrawals of 4% plus estimated Social Security benefits (both beginning at age 65), and is increased by 3% annually for inflation. The savings benchmark analysis is based on results from the T. Rowe Price Retirement Income Calculator, which considers 1,000 market simulations and an 80% simulation success rate using hypothetical age 65 salaries of \$70,000, \$100,000, and \$110,000. That tool's methodology and assumptions are explained in detail at troweprice.com/ric. Users should consider their own circumstances. Results may not apply to earnings that vary substantially from modeled salaries.



ASSET ALLOCATION



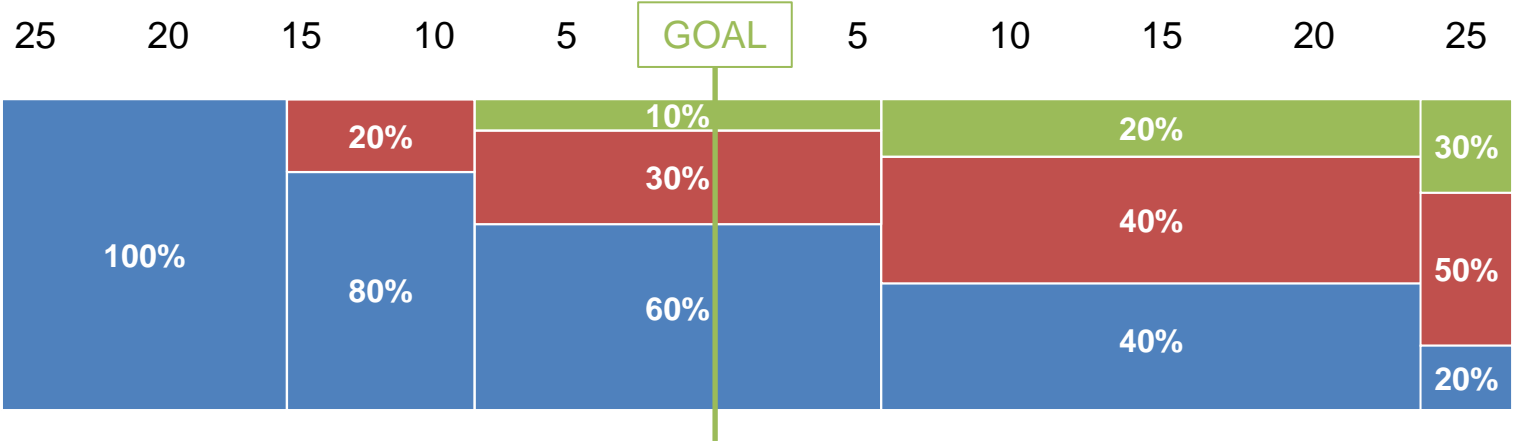
GOAL:

Provide an appropriate balance between short-term market volatility risk and inflation risk for a particular time horizon.

RETIREMENT SAVINGS ALLOCATIONS

YEARS BEFORE GOAL REACHED

YEARS AFTER GOAL REACHED



STOCKS

- 55% Large-Cap Stock
- 15% Mid-/Small-Cap Stock
- 30% International Stock

BONDS

- 70% Investment-Grade Bond
- 20% International Bond
- 10% High Yield Bond

SHORT TERM

- 100% Money Market Securities, Certificates of Deposit, Bank Accounts, and/or Short-Term Bonds

The allocations above are based on age or time horizon and do not take risk tolerance into account.

Retirement Withdrawal Rates

WEALTH MANAGEMENT

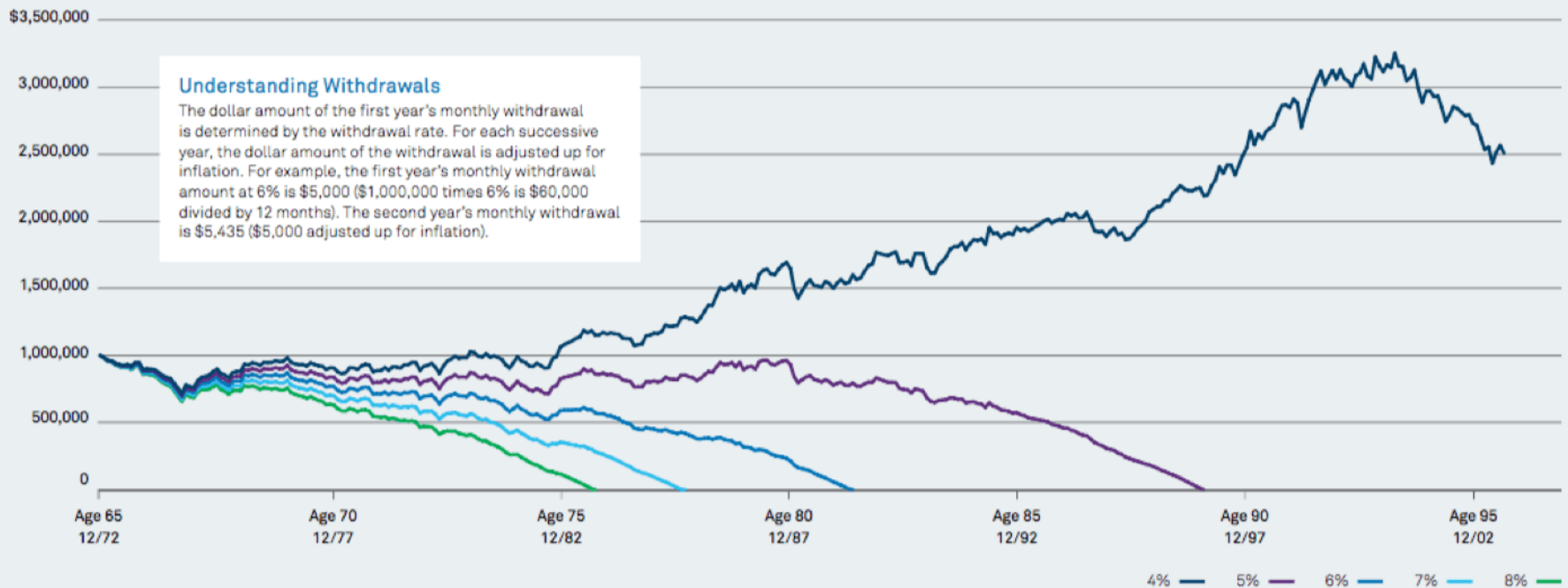
WITHDRAWAL RATES

The Long-Term Impact

BLACKROCK®

A MODEST WITHDRAWAL RATE CAN INCREASE THE LONGEVITY OF YOUR PORTFOLIO

Portfolio Value Over 30-Year Withdrawal Period



Source: <https://www.blackrock.com/us/financial-professionals>

Withdrawal Rate Probability Analysis

WEALTH MANAGEMENT

WITHDRAWAL RATES

Making Your Assets Last

BLACKROCK[®]

PERCENT CHANCE YOUR ASSETS WILL LAST THROUGH YOUR RETIREMENT

INFLATION-ADJUSTED WITHDRAWAL RATE (%)	20-Year Period Stock/Bond Allocations (%)					25-Year Period Stock/Bond Allocations (%)					30-Year Period Stock/Bond Allocations (%)				
	20/80	40/60	60/40	80/20	100/0	20/80	40/60	60/40	80/20	100/0	20/80	40/60	60/40	80/20	100/0
1	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100
2	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100
3	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	90-100	80-90	90-100	90-100	80-90	80-90	80-90
4	90-100	90-100	90-100	90-100	80-90	70-80	80-90	80-90	70-80	70-80	40-50	50-60	60-70	60-70	60-70
5	70-80	70-80	70-80	70-80	70-80	20-30	40-50	50-60	50-60	60-70	0-10	20-30	30-40	40-50	50-60
6	20-30	40-50	50-60	50-60	60-70	0-10	10-20	30-40	40-50	40-50	0-10	0-10	10-20	30-40	30-40
7	0-10	20-30	30-40	40-50	40-50	0-10	0-10	10-20	20-30	30-40	0-10	0-10	0-10	10-20	20-30
8	0-10	0-10	10-20	20-30	30-40	0-10	0-10	0-10	10-20	20-30	0-10	0-10	0-10	0-10	10-20
9	0-10	0-10	0-10	10-20	20-30	0-10	0-10	0-10	0-10	10-20	0-10	0-10	0-10	0-10	0-10
10	0-10	0-10	0-10	0-10	10-20	0-10	0-10	0-10	0-10	0-10	0-10	0-10	0-10	0-10	0-10

0% to 10%

Confidence is very low; significant changes to goals may be necessary now and into the future.

10% to 70%

Confidence is moderate to low; you may want to adjust your plan.

70% to 90%

Confidence is sufficiently high without undue sacrifice; changes to goals are likely to be minor and manageable.

90% to 100%

Confidence is high; may imply unnecessary sacrifice to lifestyle or undue investment risk. You may want to adjust your plan.

Interpreting the results: If you plan on being retired for 20 years, have an allocation of 60% stocks and 40% bonds and plan to take 6% inflation-adjusted withdrawals, you have a 50-60% confidence interval that your assets will outlast your 20-year horizon. What is an acceptable probability that your assets will last through your retirement?

Withdrawal Strategies

Which Accounts to Tap First?



TAXABLE ACCOUNTS

- Mutual Funds
- Bonds
- Stocks
- Managed Money



TAX-DEFERRED ACCOUNTS

- IRA
- SEP IRA
- SIMPLE IRA
- 401(k)
- 403(b)
- Annuities



TAX-FREE ACCOUNTS

- Roth 401(k) & Roth IRAs
- HSAs
- Municipal Bonds
- Life Insurance

Tax Diversification Withdrawal Strategy

Non-diversified Withdrawal Strategy

401(k)/IRA

- \$100,000 Withdrawal
- 32% Tax Bracket

Mutual Fund/Stock

- No Withdrawal

Life Insurance/ Roth IRA

- No Withdrawal

Total After Tax Income: \$68,000

Diversified Withdrawal Strategy

401(k)/IRA

- \$33,000 Withdrawal
- 32% Tax Bracket

Mutual Fund/Stock

- \$33,000
- 15% LTCG

Life Insurance/Roth IRA

- \$34,000
- Tax-Free

Total After Tax Income: \$84,490

Market Returns

S&P 500, US 10-Year Treasury, and 60/40 Portfolio (Total Returns, 1928 - 2022)

Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40
1928	43.8%	0.8%	26.6%	1947	5.2%	0.9%	3.5%	1966	-10.0%	2.9%	-4.8%	1985	31.2%	25.7%	29.0%	2004	10.9%	4.5%	8.2%
1929	-8.3%	4.2%	-3.3%	1948	5.7%	2.0%	4.2%	1967	23.8%	-1.6%	13.6%	1986	18.5%	24.3%	20.8%	2005	4.9%	2.9%	4.0%
1930	-25.1%	4.5%	-13.3%	1949	18.3%	4.7%	12.8%	1968	10.8%	3.3%	7.8%	1987	5.8%	-5.0%	1.5%	2006	15.8%	2.0%	10.2%
1931	-43.8%	-2.6%	-27.3%	1950	30.8%	0.4%	18.7%	1969	-8.2%	-5.0%	-7.0%	1988	16.6%	8.2%	13.2%	2007	5.5%	10.2%	7.4%
1932	-8.6%	8.8%	-1.7%	1951	23.7%	-0.3%	14.1%	1970	3.6%	16.8%	8.8%	1989	31.7%	17.7%	26.0%	2008	-37.0%	20.1%	-13.9%
1933	50.0%	1.9%	30.7%	1952	18.2%	2.3%	11.8%	1971	14.2%	9.8%	12.4%	1990	-3.1%	6.2%	0.7%	2009	26.5%	-11.1%	11.1%
1934	-1.2%	8.0%	2.5%	1953	-1.2%	4.1%	0.9%	1972	18.8%	2.8%	12.4%	1991	30.5%	15.0%	24.1%	2010	15.1%	8.5%	12.3%
1935	46.7%	4.5%	29.8%	1954	52.6%	3.3%	32.9%	1973	-14.3%	3.7%	-7.1%	1992	7.6%	9.4%	8.2%	2011	2.1%	16.0%	7.7%
1936	31.9%	5.0%	21.2%	1955	32.6%	-1.3%	19.0%	1974	-25.9%	2.0%	-14.7%	1993	10.1%	14.2%	11.7%	2012	16.0%	3.0%	10.7%
1937	-35.3%	1.4%	-20.7%	1956	7.4%	-2.3%	3.6%	1975	37.0%	3.6%	23.6%	1994	1.3%	-8.0%	-2.4%	2013	32.4%	-9.1%	15.6%
1938	29.3%	4.2%	19.3%	1957	-10.5%	6.8%	-3.6%	1976	23.8%	16.0%	20.7%	1995	37.6%	23.5%	31.7%	2014	13.7%	10.7%	12.4%
1939	-1.1%	4.4%	1.1%	1958	43.7%	-2.1%	25.4%	1977	-7.0%	1.3%	-3.7%	1996	23.0%	1.4%	14.2%	2015	1.4%	1.3%	1.3%
1940	-10.7%	5.4%	-4.2%	1959	12.1%	-2.6%	6.2%	1978	6.5%	-0.8%	3.6%	1997	33.4%	9.9%	23.8%	2016	12.0%	0.7%	7.3%
1941	-12.8%	-2.0%	-8.5%	1960	0.3%	11.6%	4.9%	1979	18.5%	0.7%	11.4%	1998	28.6%	14.9%	23.0%	2017	21.8%	2.8%	14.1%
1942	19.2%	2.3%	12.4%	1961	26.6%	2.1%	16.8%	1980	31.7%	-3.0%	17.8%	1999	21.0%	-8.3%	9.2%	2018	-4.4%	0.0%	-2.5%
1943	25.1%	2.5%	16.0%	1962	-8.8%	5.7%	-3.0%	1981	-4.7%	8.2%	0.5%	2000	-9.1%	16.7%	1.2%	2019	31.5%	9.6%	22.6%
1944	19.0%	2.6%	12.4%	1963	22.6%	1.7%	14.2%	1982	20.4%	32.8%	25.4%	2001	-11.9%	5.6%	-4.9%	2020	18.4%	11.3%	15.3%
1945	35.8%	3.8%	23.0%	1964	16.4%	3.7%	11.3%	1983	22.3%	3.2%	14.7%	2002	-22.1%	15.1%	-7.1%	2021	28.7%	-4.4%	15.3%
1946	-8.4%	3.1%	-3.8%	1965	12.4%	0.7%	7.7%	1984	6.1%	13.7%	9.2%	2003	28.7%	0.4%	17.2%	2022*	-23.9%	-18.1%	-21.6%

Source: Y Charts, as of October 14, 2022.



Taking Distributions in a Down Market

1)

What is a bear market?

- 20% loss from the most recent market peak
- 11 bear markets since 1945

2)

What is the average bear market loss since 1945?

- 35%

3)

How many bear markets will a retiree face on average?

- 4 bear markets

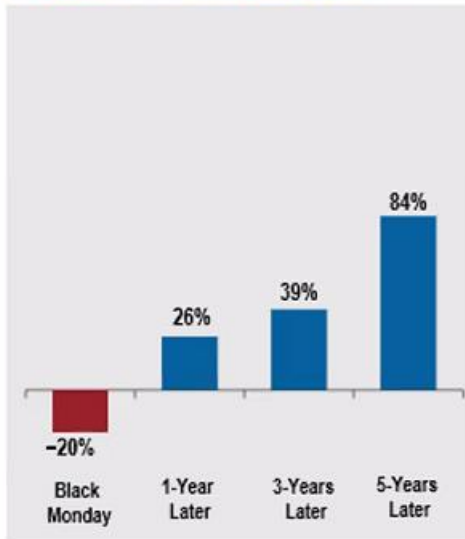
4)

How long does the average bear market last?

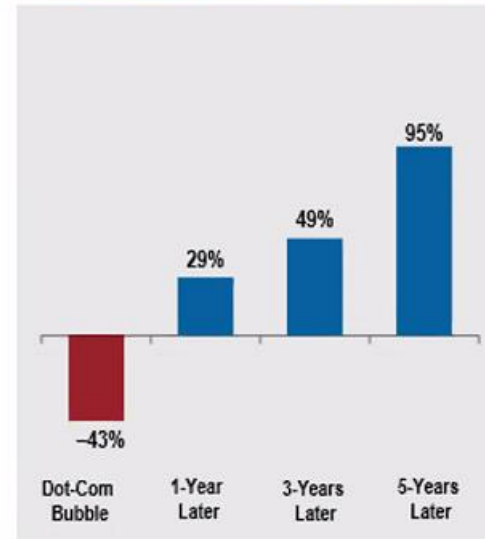
- 16 months

Bear Markets Don't Last Forever

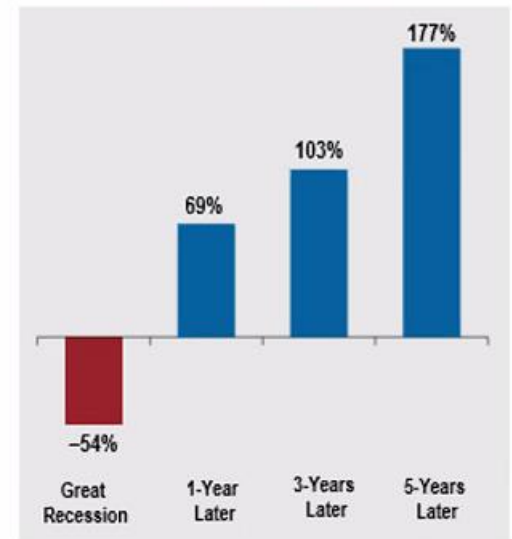
Black Monday



Dot-com Bubble



Great Recession



Stock market returns have historically rebounded substantially in the following year after a market decline.

Market Timing Can Cost Investors Significantly

S&P 500 Index Annualized Growth Rate (1990 - 2019)

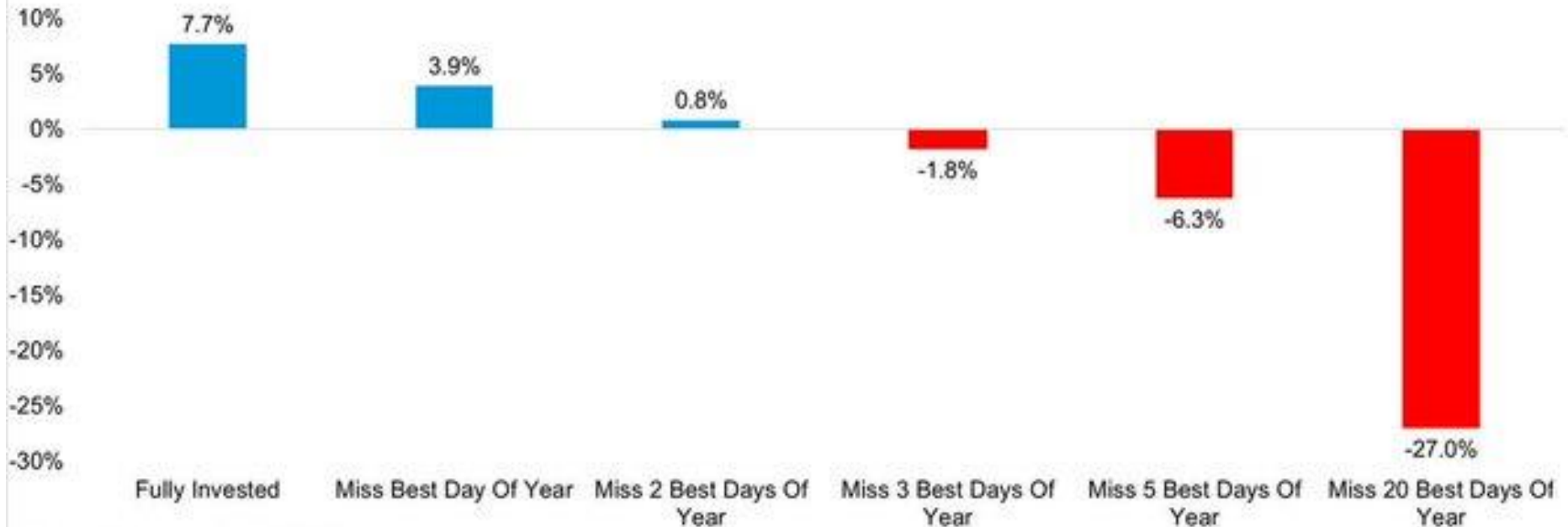


Source: LPL Research, FactSet 3/23/20

All indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.

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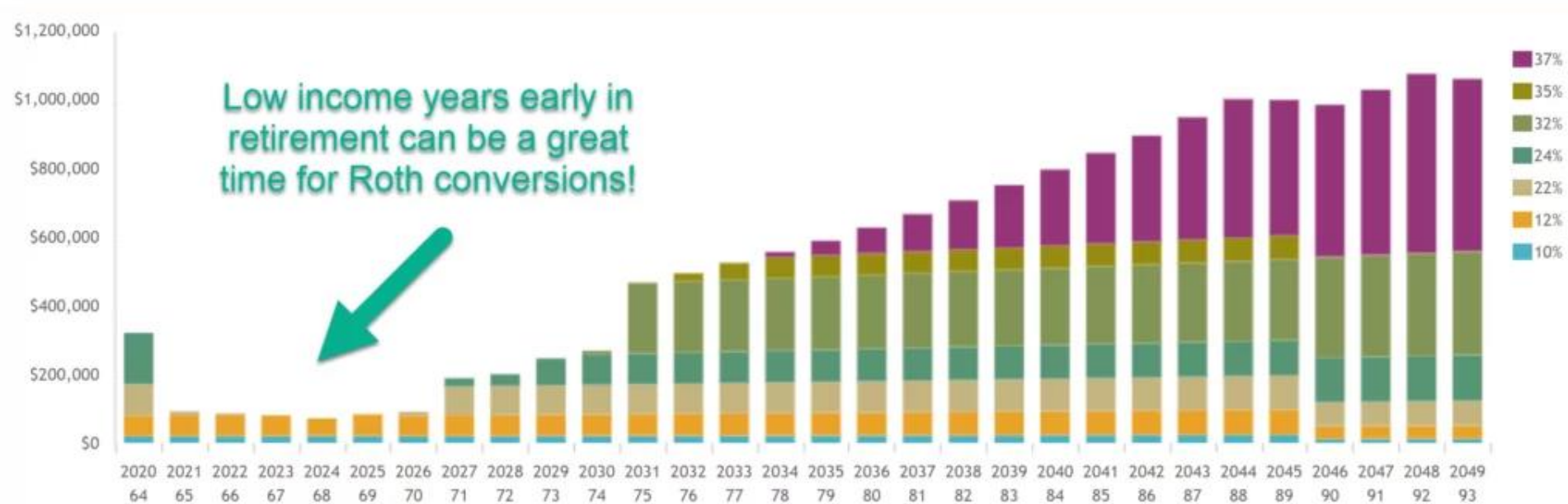
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“Far more money has been lost by investors preparing for market corrections, or trying to anticipate corrections, than has been lost in corrections themselves.” - Peter Lynch

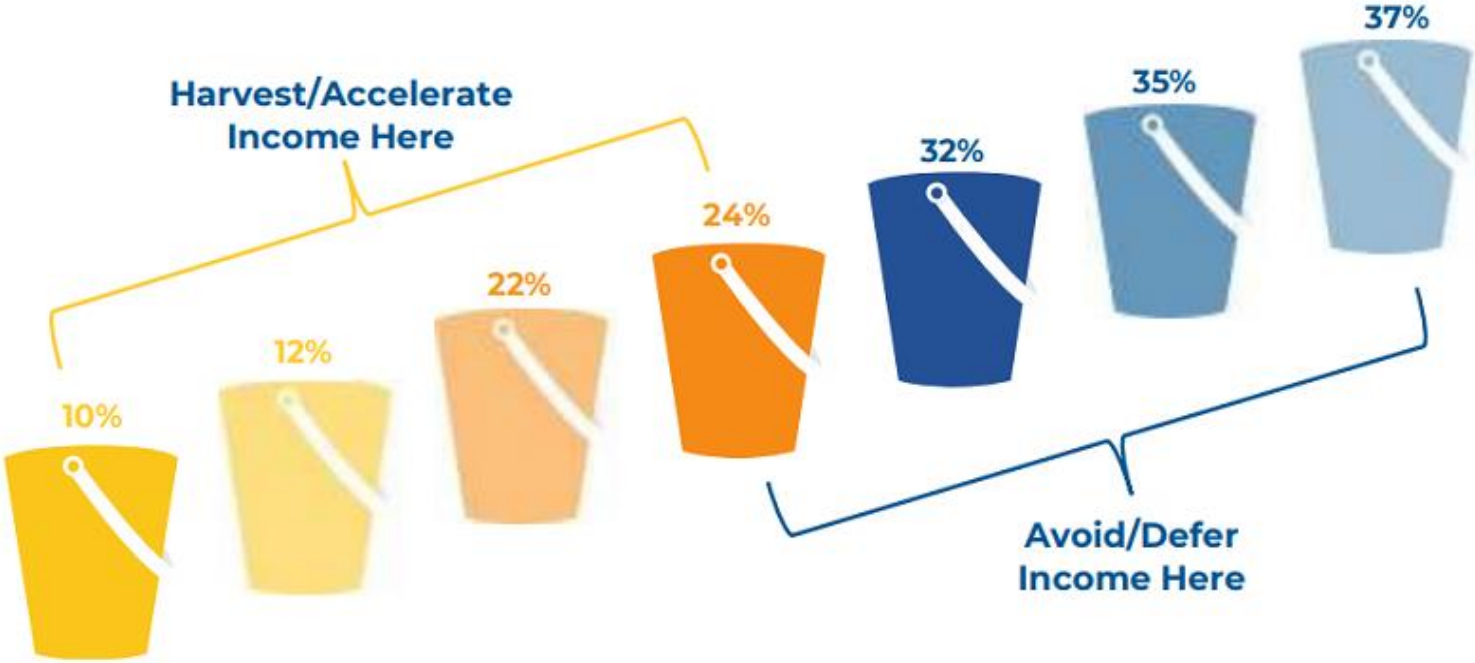
Roth Conversion?

- Low-income years & Down markets
 - Between jobs/after layoff?
 - Big loss year for a business?
- The valley after employment and before RMDs

Federal Taxable Income & Tax Brackets

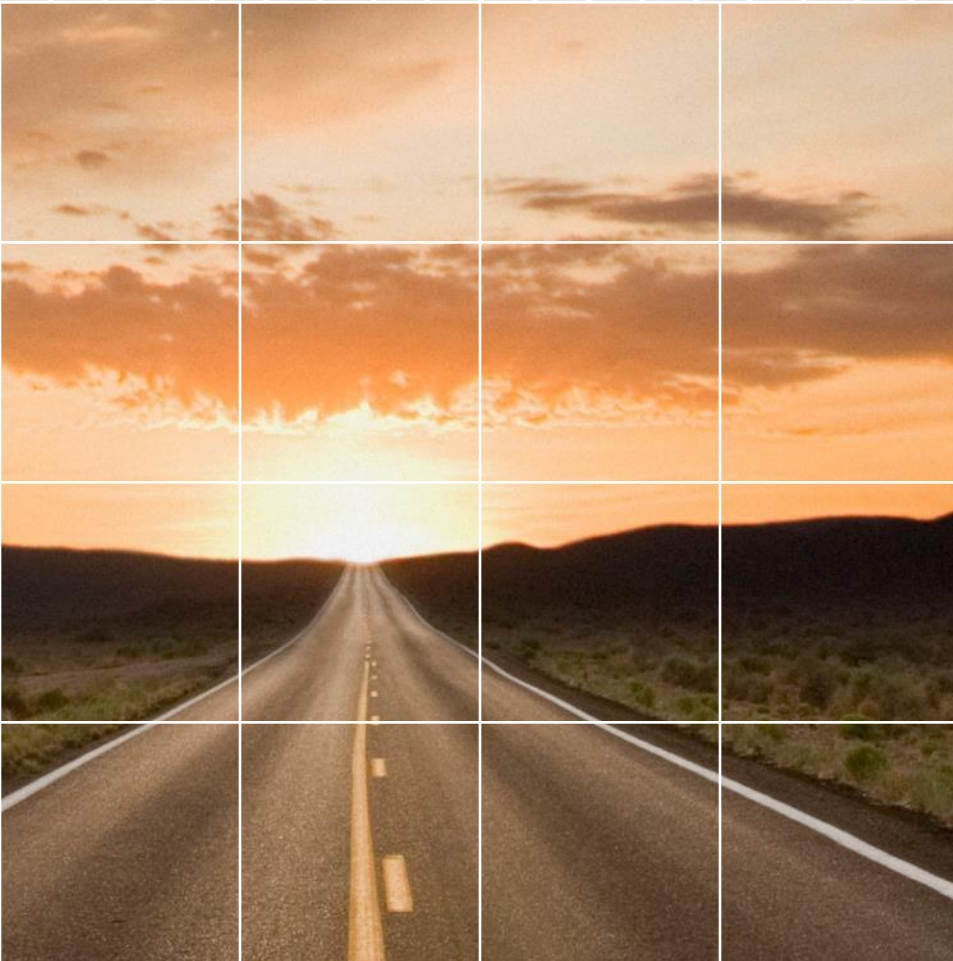


Roth Conversion – Fill the Low Brackets



Tax Rate	Single	Married Filing Jointly
10%	Up to \$9,950	Up to \$19,900
12%	\$9,951 to \$40,525	\$19,901 to \$81,050
22%	\$40,526 to \$86,375	\$81,051 to \$172,750
24%	\$86,376 to \$164,925	\$172,751 to \$329,850
32%	\$164,926 to \$209,425	\$329,851 to \$418,850
35%	\$209,426 to \$523,600	\$418,851 to \$628,300
37%	\$523,601 or more	\$628,301 or more

Summary: Develop a Roadmap



- 1) Set financial goals & create a financial plan
- 2) Harness the power of dividends & compounding
- 3) Stay calm and keep a long-term perspective
- 4) Volatility is normal, so don't let it derail you
- 5) Maintain a balanced and broadly diversified portfolio
- 6) Staying invested matters
- 7) Increase retirement plan contributions if possible

Questions?

Thank you!

Helpful Resources:

- Financial Calculators: <https://www.dinkytown.net/financialcalculators.html>
- ERS – Texas Savers Program: <https://ers.texas.gov/Active-Employees/Retirement/Benefits-of-Texas-Saver-Program>
- Texas Office of Consumer Credit: <https://occc.texas.gov/consumers/consumer-education>

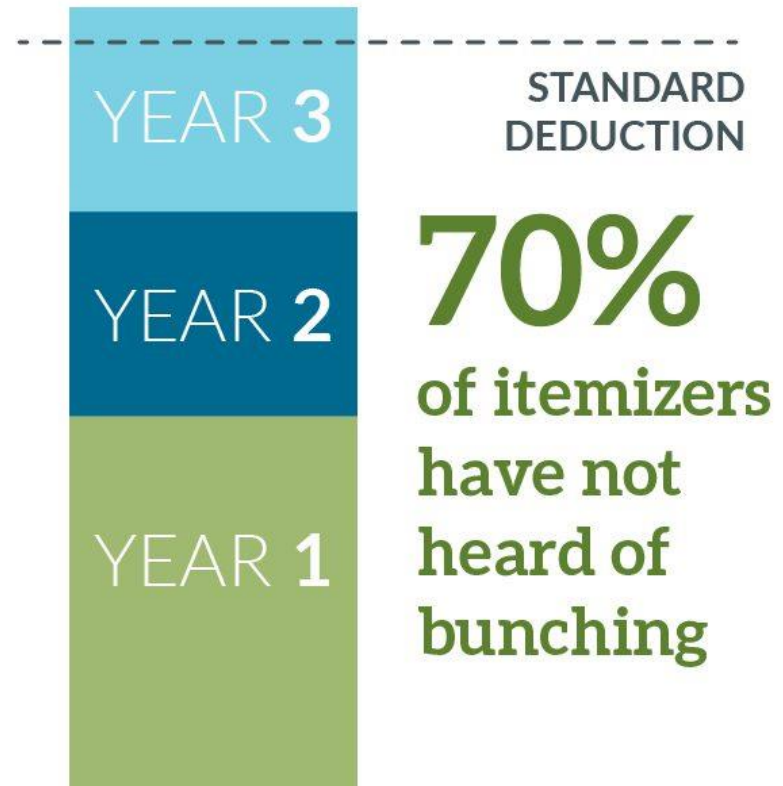


Tax Reduction Strategy - Bunching

Bunching

verb/bun(t)SH-ing/

Grouping multiple years of deductions into a single year in order to surpass the standard deduction



Tax Reduction Strategy - Bunching

Tax Year	Option 1 Take the standard deduction		Option 2 Tax-smart planning: bunch giving	
	2020	2021	2020	2021
Charitable Deduction	\$10,000	\$10,000	\$20,000	\$0
Other Deductions	\$13,000	\$13,000	\$13,000	\$13,000
Total	\$23,000	\$23,000	\$33,000	\$13,000
Standard or itemized deductions	Standard deduction	Standard deduction	Itemized deduction	Standard deduction
Deduction amount	\$24,800	\$25,100	\$33,000	\$25,100
Total two-year deduction	\$49,900		\$58,100	
			\$8,200 in additional tax deductions	