monument
wealth management

A Case Study

High Earners Eye Retirement:

The Edwards’ Dilemma

High Earners Eye Retirement: **The Edwards' Dilemma**

John and Julie Edwards are no strangers to hard work. Now in their early 50s, each spends upward of 80 hours per week in their roles as corporate executives.

As they've gotten older, though, their priorities are shifting, and their busy schedules are beginning to take a toll. In short, they're feeling burnt out, and the question of when they'll be able to retire has begun to crop up more regularly. Unsurprisingly, both John and Julie are interested in retiring sooner rather than later.

That said, the Edwards want to be sure they have enough savings to accomplish big goals, including putting their daughters through college and traveling widely—they're thinking of spending months in Europe and trekking in Nepal. They also want to be completely confident that they won't have to work again unless they decide they really want—not need—to.

Diagnosis: **A Need for Certainty**

When the Edwards came to Monument, they hadn't set a date for retirement; they were focused solely on work. Yet, now they are considering giving their notice in as few as five years. But before they decide on the right time to do so, they want to know how long they will need to work in order to have the highest likelihood for retirement success. They also want to know how to build a portfolio that will help them meet their goals and sustain their lifestyle when they're no longer working.

PRESSING ISSUES

"When will we be able to retire safely and successfully?"

Clients' personal, professional and financial lives are dynamic, shifting with the choices they make over time. At one point, for instance, Julie was considering taking a less demanding job that would represent a substantial cut in her salary. She wanted to know how that potential shift would affect the couple's long-term retirement plan. We implemented a system to illustrate the impact this and other events would have on their financial plan.

WHAT WE DID

Developed a planning matrix to compare how different strategies and scenarios affect the Edwards' probability of success in retirement.

Examined facts and "what ifs." The matrix uses factual inputs, such as income, spending and investments, and overlays them with hypothetical inputs, or "what ifs." For example, we looked at what would happen if the couple retired over a range of ages from their late 50s to their early 60s. We also tested whether taking that lower-paying job would mean the Edwards couldn't retire as soon as they hoped. (It turned out that the lower salary wouldn't push the couple's retirement plans back.)

Ran a Monte Carlo analysis, which stress-tested the planning scenarios through thousands of potential investment returns. While no one can predict the future, the results helped us illustrate how likely their "what if" scenarios were to lead to success.

Updated the matrix annually to be sure it accounts for the Edwards' changing goals. We continue to refine the components as we move closer and closer to a potential retirement date.

Determined that John and Julie probably don't need to work into their 60s. They can retire sooner if they want. And the model will continue to account for shifting priorities in the present that may affect when they can stop working.

DESIGNING FOR THE FUTURE

How can we best grow our money and build a solid base for retirement?

John and Julie are high earners with a household income that exceeds $3 million each year. They have about $400,000 annually to contribute to their investment portfolio. They wanted to know the best way to grow their retirement savings while balancing their evolving risk tolerance as they near retirement.

Additionally, as high earners, the couple is focused on taxes. Careful tax planning provides an opportunity to limit their tax liability as much as possible—an outcome that can sometimes be as valuable as strong investment returns.

WHAT WE DID

Recommended that they continue saving. We advised the Edwards to make disciplined, methodical contributions, maxing out their tax-advantaged retirement accounts and allocating additional savings to taxable accounts.

Advised a long-term view. Though retirement may be on the horizon, the couple likely won't need to tap their investments for at least five years. We recommended that they focus on long-term returns, not short-term volatility.

Offered a tax-efficient diversification strategy. The couple had focused on buying growth-oriented investments to build their portfolio. As retirement approaches, Monument will begin to shift toward more conservative investments to help reduce the effects of market volatility on their portfolio. However, liquidating growth investments in taxable accounts to buy conservative alternatives would potentially incur high taxes. (The couple's income lands them in the top income tax bracket, subjecting them to the highest capital gains tax rates.) Instead, we recommended they slowly shift their allocation to include conservative investments over time via their new contributions, avoiding the need to sell existing investments with embedded gains.

Added tax-efficient investments, such as municipal bonds, to the portfolio; interest income from municipal bonds isn't subject to federal tax, and may be exempt form state and local taxes. We also introduced the possibility of using tax-deferred annuities and publicly traded real estate investment trusts (REITs), which offer potential tax benefits on income.

Planned ahead for a tax-smart withdrawal strategy. The Edwards hold significant assets in tax-deferred retirement accounts. When they're in a lower tax bracket in retirement, we will evaluate making strategic conversions from these tax-deferred accounts to a tax-free Roth account. This strategy would allow the Edwards to decrease their required minimum distributions (RMDs) on tax-deferred accounts in retirement, which could be large and generate a large tax burden in turn. Though the couple will pay income taxes on money transferred to a Roth at the time of conversion, the strategy will potentially result in a lower tax bill than if they were to keep all the money in tax-deferred retirement accounts.

Takeaway: The Confidence and Tools to Retire

It may seem that a high-earning couple like John and Julie—especially one that can save $400,000 each year—should have no trouble retiring. Yet the couple wanted to be sure that, even if they encountered some curveballs, they could still count on slowing down and enjoying the fruits of all their hard work over the years.

Modeling the various scenarios that could take place in the next five to 10 years helped give the couple confidence in their ability to retire. We backed up that confidence with a smart portfolio strategy that takes into account the couple's changing investment needs and risk tolerance, as well as provides savings through strategic tax planning.

To help ensure that this strategy is carried out, we developed an investment policy statement to serve as a guide. As aspects of John and Julie's lives change, or market conditions fluctuate, we can all refer to the investment policy statement to keep the couple on track for a secure, successful retirement.

About Monument Wealth Management

On paper, we're a wealth management firm. In reality, we're equal parts creative lab, brain trust, and outspoken critics of the financial industry. But, what we really are is a team of razor-sharp, innovative, collaborative, and creative thinkers with seasoned financial expertise, a renegade spirit, and zero commitment issues.

What we do is provide opportunities for people to use what they have to get where they most want to go—and tap not just their potential for wealth, but their potential for living. For our clients, we do it in the form of thoughtful, considered, bespoke Private Wealth Design. For our team, we do it by providing opportunities for education, growth, and collaboration, so that they can become not just skilled advisors, but keener thinkers, creative problem solvers, and better humans.

Life, like money, is **complex**.

There are lots of **moving parts**. And it requires a lot more than just tallying up numbers to figure it out.

At **Monument**, we specialize in taking complex, 3-dimensional problems and **creating solutions** that are intelligent, thoughtful, and creatively conceived.

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