TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

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Tenon Financial Happenings

Get to know Brad, and some retirement tax planning training

As I shared in last month's newsletter, Brad Flood recently joined the team as a third advisor here at Tenon Financial.

While his **bio is on our website**, I wanted to do a more in-depth and personal "get to know" video about Brad. He's a sharp guy, a cool guy and a guy who does NOT appreciate pineapple on pizza, but I won't hold that against him (yes, I'm in the minority of people who like pineapple on pizza).

Here's a **link to my video interview of Brad**

And, FYI, we'll soon be getting new pictures of all of us on our website!

If you're interested in seeing if working with Brad as your advisor at Tenon Financial might be a good fit for what you're looking for in an advisory relationship, check out our **Services & Fees** page.

Then, if you still want to find out more, at the bottom of that page you'll see the orange button/link to fill out the additional info request form.

Additionally, the next section of this newsletter has a more thorough explanation and detailing of the services we provide; to better help folks understand what it is we do. I realize the retirement distribution, income and tax planning we focus on is a bit new to many people, even those who've worked with other advisors before or have DIY's their planning thus far.

In other news, last month I attended a two-day tax training in Atlanta from the Ed Slott Group. There were lots of nerdy but interesting updates and lessons on technical retirement and tax planning things like inherited IRA Required Minimum Distribution rules, changes to tax reporting for Qualified Charitable Distributions and recaps of the latest retirement-related IRS tax rulings and court cases. Super fun!

And, next month, Brad and Michelle will be attending a similar Ed Slott Group training in Chicago.

Training like this help us stay up to date on the latest and greatest tax legislative changes and IRS rulings related to retirees and retirement planning. And these Slott trainings always have an impressive amount of food, which is a nice added benefit!

I hope you all had a great May and will have an even better June.

-Andy

Retirement Planning Happenings

What retirement-focused financial and tax planners actually do for clients, using Tenon Financial as an example

As many of you know, I have a side hobby of creating, running, moderating and hosting the Retirement Planning Education website, Facebook group, YouTube channel and Podcast.

These things aren't formally associated with Tenon Financial. I instead use them as a means to create and distribute free retirement, financial and tax planning education and information to the world, delivered from me as an individual as opposed to me acting or speaking on behalf of Tenon Financial.

But I thought I'd share here a recent question I received for the podcast and decided to make it into its own full episode (which you'll be able to check out here when the episode comes out on June 5th). Specifically, a listener e-mailed me and asked:

> ***"To me, it seems like financial advisers, whether they charge AUM or a flat fee, charge a lot of money. I don't expect anyone to work for nothing, but I'd like a rundown of what you do for that money. In other words, assume Mr. and Mrs. Smith have (you can change the numbers--these aren't mine but I realize you want to stay generic) $100,000 in brokerage, $200,000 in Roth and $1.5 million in IRA/401K. They own a $400,000 home and a $200,000 rental property. They hire you. Walk us through what you would do for them in year one and thereafter. Thanks"***

While there is often a lot of similarities between advisors, different advisory firms go about things in slightly different ways and/or have different areas of expertise, focus or specialization. I thought I'd address the question by sharing what we do at Tenon Financial, as an example. Especially since the basic sample client summary given in the question is similar to the profiles of many of our clients.

In a nutshell, we work with people who are in or near retirement. We like to call this the *DE*cumulation stage of life. The accumulation stage is when you're working, saving and building your nest egg, and the decumulation stage is when you're not only no longer working and saving, but instead taking *out of* your nest egg.

The tax, investment and overall financial planning aspects of the decumulation stage of life are very different – and more complicated in my opinion – than in the accumulation stage. With that said, there is a lot of unique knowledge and specialization that goes into properly navigating the planning for decumulation vs accumulation.

In that sense, you can loosely think of retirement & decumulation-focused advisors as a sub-category of specialists within the broader financial planning industry. Kind of like there are lawyers who specialize in certain areas of law and aren't legal generalists, and there are doctors who specialize in certain areas of medicine and aren't general practitioners, etc.

I'd struggle to try to neatly sum up what it is we do and why we're different and truly specialized in retirement & decumuation planning. So I figured I might as well just jump in to detailing our typical processes and services, and that will hopefully give you all a thorough understanding by the time you get to the end of this article!

Okay, let's get into the nitty gritty…

Management of investments

I'll start with the one part of what we do that most people probably have at least some familiarity with; management of investments.

We manage clients' investable assets as part of our service. Specifically, we are on Charles Schwab's institutional independent advisor platform. This grants us the ability to have limited power of authority to manage client's accounts held at Charles Schwab.

We do require all clients to have us manage their investments, which requires clients to open accounts at Charles Schwab (if they don't already happen to have accounts there). Or at least, we require clients have us manage the accounts that are able to be held at Charles Schwab. For example, if clients are still working and have a 401(k) through their employer, that account likely can't be transferred out while the person is still at that employer. And even if it can, there will be times where it's in their interests to leave the account there, such as if they'll be retiring before 59 ½ and plan on using the rule of 55 to make withdrawals from the account without the 10% penalty. In that case, such accounts would stay where they are. We can give guidance on them, but we can't directly manage them like we can brokerage accounts, IRAs and Roth IRAs held at Schwab.

The investment process we use is frankly very straightforward and not some kind of proprietary secret sauce. We typically invest using a few Vanguard ETFs and some individual U.S. Treasury securities.

Michelle, Brad and I had lengthy careers in and around institutional investment management prior to joining Tenon Financial. We've all seen and worked around some of the most complicated and elaborate financial products and investing strategies in the industry. And those experiences have led us to realize that a lot of what Wall Street does is unnecessarily complicated, unnecessarily expensive and ultimately isn't likely to do any better for investors over the long-term than simple low-cost strategies and products that anyone can easily buy and implement.

Good investment management has become increasingly cheap, easy and commoditized to do and do well. That's not where an advisor's main area of value will come from. The real value comes from the rest of the financial and tax planning, as I'll touch on in a bit.

Investing is important, and we take it seriously. But it doesn't need to be as complicated as many people try to make it. We focus on controlling that which can be controlled as opposed to that which can't.

Overall stock vs bond vs cash vs other potential asset class allocations can be controlled. The cost and fees paid for investment products can be controlled. Portfolio diversification can be controlled. To some extent the taxation of different investment types can be controlled (such as putting certain asset types in certain account types to maximize their tax-efficiency…aka asset "location"). The overall simplicity and ability to explain - in plain English - what someone actually owns in their portfolio can be controlled.

What can't be controlled is whether small cap stocks will outperform large cap stocks going forward. Or whether growth stocks will outperform value stocks. Or what sectors will outperform others. Trying to speculate on which of these things will do better than others is futile and ultimately just guessing and therefore not where an advisor's focus should be.

Aside from simply picking, rebalancing and trading investments for clients, an advisor can also help clients manage the behavioral aspects of investing. In other words, we help prevent clients from making emotionally driven mistakes such as following the crowd and buying more stocks when the markets are high, or selling out of stocks when markets are having a rough patch and CNBC is providing a steady stream of fear-inducing sound bites and flashing red warning signs on the screen…

After we initially invest/reinvest clients' portfolios and accounts at Schwab, we monitor the accounts regularly, checking no less often than quarterly to compare actual allocations to the target allocations we mutually agreed upon with clients at the inception of the relationship. And we'll rebalance the accounts accordingly if their allocations get too askew from their targets.

Furthermore, whenever clients distribute money out of, or contribute money into, their Schwab accounts, we'll also use that as an opportunity to rebalance as necessary.

For example, if a client has a 60/40 stock-to-bond & cash target allocation and it's time to take a distribution, we'll look at what their current actual allocation is at the time to determine what to sell to free up the cash for the distribution. If their actual allocation is 62/38, for example, we'll sell some of the stock funds in their accounts, thus bringing back their allocation toward the 60/40 target.

And this process of rebalancing and selling based on actual-vs-target allocations helps ensure we're following prudent investing principles; buy low, sell high (not vice versa!)

In the prior example, if the actual allocation is 62/38 and the target is 60/40, that means stocks are comparatively higher than bonds. Such would be the case if there's been a run up in the stock market recently. So, in selling stocks to get the allocation back toward 60/40, we'd be selling what's comparatively high; not what's comparatively low.

And same thing if a client were to contribute additional money into their account(s); if the target allocation is 60/40 but the actual allocation is 58/42, for example, we'd use the new money to buy more stock funds to get closer to your 60/40 target allocation. Hence we'd be buying what's comparatively low (i.e. stocks, since the actual weighting of stocks is less than the target) as opposed to what's comparatively high (i.e. bonds or cash).

There is more nuance to all of this, such as working with clients to figure out the proper amounts of cash to hold in their bank accounts, outside of Schwab, and when to use that cash as opposed to simply take all cash needs from selling things at Schwab. But hopefully the above gives you a good overview of our investment philosophy and approach.

And as I mentioned before, we do require that clients let us manage their investments by transferring account to Schwab (if they're not already at Schwab).

This requirement isn't because the process we do is too difficult for people to do on their own. Like I said, our investment approach is really straightforward.

However, since we're so involved in the tactical aspects of tax and distribution planning (more on that in a bit), directly managing the investment accounts ourselves helps makes the implementation of the tax and distribution planning more efficient and less clunky and disjointed, for lack of a better word.

For example, part of our service is doing the analysis of what tax withholdings should be on IRA distributions. So, when it comes time to take an IRA distribution, not only are we the ones to do the analysis of what to sell in the account to free up cash and then place the actual trade(s), but we also enter in and initiate the transfer of cash - and enter in the appropriate tax withholding amounts - out of your IRA to whatever external bank account you chose to link up to your Schwab account.

If clients were to manage their own investment accounts, we'd still be the ones to do the work to figure out what the tax withholding would need to be, what the gross amount of distribution would be, what should be sold to free up the cash and when to actually transfer the cash out of the Schwab account to the client's external bank account. And we'd then have to relay all of those instructions to the client for the client to transact and process.

In our opinion, there are too many potential areas for operational error in that whole process if we aren't the ones directly managing it. Maybe the trade gets entered incorrectly by the client or not in time, maybe the tax withholding percentage doesn't get set up correctly, maybe the amount of distribution or the account from which it's to be distributed doesn't get set up correctly, etc. By us having the ability to directly do all of those things, it makes the whole process safer and more efficient.

One final comment about our investment management approach is since we invest largely in passive index funds, we don't seek to try to outperform the market's returns. Our clients are invested *in* the market, and therefore get the returns of the market.

As I mentioned before, trying to speculate which particular investments or segments of investments will do better than others going forward is just that; speculation. Sometimes speculating will work out in your favor, other times it won't. Again, we focus on what can be controlled, not what can't. We can invest to get clients market-level returns while keeping investing costs and fees as low as possible.

With that said, the performance of client's accounts will be based on whatever their allocations and particular mix of funds is.

For example, if Client A is willing and able to have more exposure to higher growth higher risk assets than Client B, Client A will have a larger stock allocation than Client B. And if the stock market ends up having a really good year, Client A's portfolio returns will be better than those of Client B. And vice versa. But that doesn't mean Client A's outcome was necessarily any better or worse than Client B's that year. It simply means their returns were appropriate for their unique asset allocation, risk tolerance and overall investment mix.

Annual distribution, income and tax planning

Okay, enough about investments. Like I said, management of investments is important and it's an integral part of what we do. But it's not the real value or differentiation between us and most other advisors. The real value is in the rest of the stuff I'm about to discuss.

We get really in the weeds with tax planning throughout our relationship, particularly as it relates to tying together a cohesive income plan between guaranteed income sources such as Social Security, pensions and annuities with using cash from client's bank accounts and distributions from client's investable accounts at Schwab under our management.

At the start of our relationship, we'll do detailed info and data gathering about you. This will include qualitative things like what your overall goals and priorities are in retirement and life in general, as well as the various quantitative aspects of your life like getting information about your expenses, Social Security, pensions, investable accounts, real estate holdings, insurance products, estate plans, etc.

We then use a software called eMoney to enter in all of your information and come up with a big picture financial plan. All clients get access to eMoney as well, and that includes 24/7 access to various reports and tools such as a daily summary of your net worth, investable account analysis and overviews, cash flow projections, long-term tax projections, etc. And eMoney also has a secure file-sharing vault where clients and we can safely share documents and sensitive information.

The initial plan delivery isn't a thick printed out report. It's instead a Zoom meeting where we screenshare and talk through various reports and projections and "what if" types of scenarios in eMoney to see the feasibility and potential areas of risk or concern in your plan, goals and finances.

We can model in various goals such as ongoing and one-off large expenses and see the feasibility of those when changing assumptions around life-expectancy, market returns, inflation, health issues such as long term care, etc.

Think about the initial plan less of a static "this is what's going to happen" report, and more of a collaborative discussion of the long-term potential outcomes of things and areas of potential opportunity.

For example, your initial questions, goals and/or concerns you express to us might be something like, "I want to retire at 60, figure out when to start Social Security, spend $120,000 per year and determine where my retirement paycheck will be coming from, add in additional expenses for travel for the first 10 years, determine how much I can help give to my kid to buy a house, figure out how best to pay for long term care if needed, ensure I don't run out of money and try to save on taxes."

In the initial plan, we can model in all of these things, show the feasibility of it all, show what happens if you were to spend more or less, show what happens if a long term care event happens and lasts longer than originally expected, show the impact of gifting different amounts to your child, see the upcoming years of potential opportunities to do some long-term tax planning such as Roth conversions and larger IRA distributions before Social Security, etc.

But keep in mind that even the best made plan will be wrong and outdated soon after it's created! Even in retirement, retirement planning will always be a moving target. For better or worse, life circumstances will change, your goals and interests will change, your health may change, tax legislation will change, stock and bond markets will change, inflation will change, and so forth. The real value in a good advisory relationship is having someone there to help you adjust and adapt your finances and strategies as all of these things unfold.

A financial plan is living breathing thing; not a static 50-page printout that ends up being a fixture on a coffee table. The initial financial plan is basically a road map of how we'll be making decisions in the future, and where potential areas of opportunity lie. But the plan WILL change over time, and we'll be there to help you make decisions around how best to change along with it.

With that said, after the initial plan meeting, the normal meeting cadence is that we have formal semiannual meetings via Zoom with everyone every year; typically in May or June, and then again in October, November or December.

In these semiannual meetings, we hash out and refine that year's income and tax plan, as well as address any other pertinent issues that may arise. But hold that thought about what "other pertinent issues" might be; I'll start by discussing the annual income and tax planning.

Each year we'll do a full income and tax projection for you, that will incorporate a) ensuring you get the paycheck or distributions you want and need throughout the year, b) figuring out the optimal combination of accounts from which to distribute the cash and c) ensuring your income tax obligations for the year get paid.

And these annual projections will also incorporate any other bigger picture or longer-term tax planning strategies that are planned for the year. This may include things such as doing Roth conversions, tax loss or gain harvesting in brokerage accounts, charitable donations, gifting to family or friends, etc.

The year's income and tax projection is generally first sketched out at the beginning of the year. However, as the year unfolds and income potentially differs from what was originally projected, we'll refine the plan and projections accordingly. For example, maybe you end up getting an inheritance you weren't expecting, maybe legacy mutual funds in your brokerage account end up paying out more capital gain distributions than expected, maybe you decided to pick up some part-time work for the fun of it and will now have some wage income, maybe interest rates change throughout the year and your bank account interest ends up being much different than originally expected, etc.

Each year's income and tax plan will likely look a bit different, based on what that year's goals and/or life circumstances are, and therefore what we're trying to solve for or target with the plan.

For example, if you're retired and not yet 65 and therefore not yet on Medicare, maybe you have health insurance through the Affordable Care Act ("ACA"). In that case, maybe the plan is to get you the cash you need for living expenses while keeping your tax return's gross income as low as reasonably possible to maximize the amount of premium tax credits you can get on your ACA policy. This might involve having you mainly use cash in banks to cover living expenses and only doing limited IRA distributions for the year.

But then perhaps the next year you'll be 65 and on Medicare, so then we don't need to worry about the ACA-specific tax planning. In that case, maybe then we want to work on trimming down your pre-tax IRA balances before Social Security starts. However, maybe we want to keep your gross income to a level that doesn't trigger the income-based Medicare premium surcharges known as IRMAA, or Income Related Monthly Adjustment Amount.

Or, maybe you have really large pre-tax balances and therefore a large potential future tax liability. So it might make sense to be more aggressive with realizing more of the taxability of your pre-tax balances now. Which could mean doing large Roth conversions or IRA distributions. That could raise you up into a higher amount of IRMAA surcharges, but could end up saving you more than that in future taxes by having less pre-tax money to have to eventually distribute from and pay tax on.

Another example of what a given year's plan may be is to take advantage of tax gain or loss harvesting, where selling things in a normal brokerage account can generate all or some of that year's cash flow needs, but where the sales are done in a tax-focused way paying careful attention to how much gain or loss the sales will realize.

And, as I mentioned before, part of each year's income and tax plan will be making sure you pay the year's income tax bill accordingly, whether through doing withholdings from things like IRA distributions, or making estimated payments throughout the year.

Planning around other life, financial and tax matters

Above was just some common examples of what any given year's overall income and tax plan may look like. There are other things that can come up that will impact what the year's plan will be. These are some of the "other pertinent issues" I referenced before.

For example, maybe you decide you want to buy a second home down south and do the snowbird thing. We'll work with you to figure out how best to pay for the house and/or raise the cash to buy it. There will obviously be tax implications to that decision, and we'll work those into that year's income and tax plan.

Or maybe you decide you want to make a large gift this year to your child to help them buy a house. We'll work that into the year's plan and help figure out how best to raise the cash for the gift and manage the tax-efficiency and implications of raising that cash.

Alternatively, maybe this is the year you decide to buy a new car. We'll similarly help with that decision and the finances around it.

Maybe you want to open and fund a Donor Advised Fund, or DAF, to make a large charitable donation. We'll work with you to figure out the most tax-efficient way to fund the DAF.

Perhaps you'll have some large unexpected medical expenses during the year. We're here to help update the year's income and tax plan accordingly to account for that.

And then there are other areas of your life we can help with but that don't necessarily have any current year tax impacts. Such as deciding whether or not to create a living/revocable trust. While we're not lawyers and can't give legal advice or create trusts, we can help talk through and review structuring your trust and reviewing drafts of the trust documents from your lawyer.

We also help ensure your investable accounts have proper beneficiary designations on them to make your eventual estate administration and carrying out of wishes as smooth and efficient as possible.

And then there also other areas where we're not licensed to practice and/or aren't the knowledge experts, but we have a network of trusted professionals to refer you to and work with. This includes shopping around for Medicare supplement and Part D drug plans, mortgages or reverse mortgages, insurance and annuities, etc.

Is all of this worth the fee???

Like most things in personal finance, when questioning whether the fee for ongoing advisory services is worth it, the answer is a resounding, "it depends…"

To best expand on what I mean, take a look at the article I wrote a few years ago in Rethinking65. The article is called **How Much Are Your Services Worth?**

In case you don't want to read the article, the executive summary is there is no doubt value in advisory services; especially good advisory services. However, it's truly impossible to put a precise dollar amount on what the value is every year.

Even when it comes to something that appears to be numbers driven and objective on the surface, such as investment management, you'll see in the article how it's not possible to definitively and quantifiably say how much value is delivered each year from an advisor.

And the value calculus is even more nebulous when trying to put a figure on the value of long-term tax planning, as the amount of tax savings that may ultimately be realized will be a function of how tax legislation, your account's investment returns, your own life circumstances, etc. change over time. In other words, there is no way to say today how much may end up being saved from years' worth of proactive tax planning.

Furthermore, a large part of the value in advisory services is subjective, and can vary wildly from person to person. Some people get much more peace of mind value from an advisory relationship than others. Two seemingly identical clients might get the exact same services from an advisor, yet one client might perceive the relationship as invaluable while the other continually questions if it's worth it and ends up terminating the relationship within a couple of years. Which client's response to "is this worth it" is right??? They're both right, albeit it for their own unique reasons.

Pay attention to the dollars - not percentages - you pay for advisory services

My parting comment is to say that if you do decide to hire an advisor, pay attention to the total amount of dollars - not percentages - you'll be paying in fees every year.

While the standard 1% of assets under management may not sound like much (1% of anything is a small amount, right???), the dollar amount of fee can be rather large. For example, on a $1,000,000 portfolio, 1% per year would be $10,000 of fee every year. On a $2,000,000 portfolio, the 1% fee would be $20,000 every year. Furthermore, the person with $2,000,000 certainly isn't going to be getting twice the services, twice the time, twice the deliverables, twice the advice or necessarily twice the "value" as the person with $1,000,000, yet they'll be paying twice as much.

Whether it's $5,000, $10,000 or $50,000 per year, advisory services definitely aren't low cost or cheap. But is the value more than the cost aka is the service worth it??? That's for you to decide. Like I mentioned before and wrote in the **Rethinking65 article**, I know there is value in what we do. But I can't pretend to put an quantifiable dollar amount on the value you'll receive (or *feel* you'll receive) every year.

To wrap up, whether you feel Tenon Financial's services are a good fit for what you're looking for or not, this article at least should give you a fairly thorough understanding of what it is we do. So, if nothing else, you can use this info as a starting point for what to look for in other advisory firms (if/when you decide you'd like to consider hiring an advisor). Compare and contrast what we offer vs what others offer. And compare our focus and specialization vs the focus and specialization of others. This will give you a better frame of reference for what's out there, what to expect, what types of services to ask about (particularly around tax planning), etc.

I hope this helped clear up some of the unknowns about what advisors do (or at least, what Tenon Financial does!)