Your Winning Retirement Plan
Meeting Minutes

Topic: **Chapter 3 Part 2 – Investments**
Pages Covered: **(84 - 109)**
Date: **Sunday, February 6th**
Time: **4pm – 5pm Mountain Time**

Resources

- Meeting Recording (MP4): Link (60 minutes)
- Meeting Agenda(PDF): Link
- Chapter 3, Part 2 Discussion(PDF): Link
- Meeting Minutes(PDF): Link (This document)
- Schwab: Roth Conversion Calculator

Meeting Minutes

- **Chapter 3 Discussion** (00:00 – 58:00)
    - Vehicles (01:22 – 24:31) (01:22 – 24:31)
    - Allocating within Vehicles (24:31 – 29:19)
    - Making Smart Investments (29:19 – 40:48)
    - Real Estate (40:48 – 44:34)
    - But I want to Relax! (44:34 – 46:28)
    - Chapter Closing Thoughts (46:28 – 56:25)
        - REITS
        - How to determine the spend down sequence of your retirement funds.

Supplemental Material

More information on topics mentioned in our meeting:

- **What are I Bonds?**
    - Investopedia:
        - Inflation-Linked Savings Bond (I Bond) – Explain what they are and how they work
        - Best Saving Bonds – Compare EE bonds to I Bonds

- **Bond Laddering** – Mentioned in our conversation, but may not apply to I bonds, since these are not fixed rates, and adjust, one of the points of bond laddering is to minimalize risk with fixed rate bonds.

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- **Calculating taxes for a Partial or full Roth Conversion**

2020 Tax Quick Tax Calculation table

Form 1040								
2020 Quick Tax Method								
MFJ or QW Taxable Income								
$ 0	–	$ 19,750	×	10.0%	minus	$ 0.00	=	Tax
19,751	–	80,250	×	12.0%	minus	395.00	=	Tax
80,251	–	171,050	×	22.0%	minus	8,420.00	=	Tax
171,051	–	326,600	×	24.0%	minus	11,841.00	=	Tax
326,601	–	414,700	×	32.0%	minus	37,969.00	=	Tax
414,701	–	622,050	×	35.0%	minus	50,410.00	=	Tax
622,051		and over	×	37.0%	minus	62,851.00	=	Tax
Single Taxable Income								
$ 0	–	$ 9,875	×	10.0%	minus	$ 0.00	=	Tax
9,876	–	40,125	×	12.0%	minus	197.50	=	Tax
40,126	–	85,525	×	22.0%	minus	4,210.00	=	Tax
85,526	–	163,300	×	24.0%	minus	5,920.50	=	Tax
163,301	–	207,350	×	32.0%	minus	18,984.50	=	Tax
207,351	–	518,400	×	35.0%	minus	25,205.00	=	Tax
518,401		and over	×	37.0%	minus	35,573.00	=	Tax
HOH Taxable Income								
$ 0	–	$ 14,100	×	10.0%	minus	$ 0.00	=	Tax
14,101	–	53,700	×	12.0%	minus	282.00	=	Tax
53,701	–	85,500	×	22.0%	minus	5,652.00	=	Tax
85,501	–	163,300	×	24.0%	minus	7,362.00	=	Tax
163,301	–	207,350	×	32.0%	minus	20,426.00	=	Tax
207,351	–	518,400	×	35.0%	minus	26,646.50	=	Tax
518,401		and over	×	37.0%	minus	37,014.50	=	Tax
MFS Taxable Income								
$ 0	–	$ 9,875	×	10.0%	minus	$ 0.00	=	Tax
9,876	–	40,125	×	12.0%	minus	197.50	=	Tax
40,126	–	85,525	×	22.0%	minus	4,210.00	=	Tax
85,526	–	163,300	×	24.0%	minus	5,920.50	=	Tax
163,301	–	207,350	×	32.0%	minus	18,984.50	=	Tax
207,351	–	311,025	×	35.0%	minus	25,205.00	=	Tax
311,026		and over	×	37.0%	minus	31,425.50	=	Tax

Note: Assumes taxable income is all ordinary income. High-income taxpayers may also be subject to the 3.8% tax on net investment income and/or the 0.9% additional Medicare tax on earned income. **Caution:** IRS Tax Tables must be used for taxable income under $100,000. To calculate the exact tax using the Quick Tax Method for taxable income under $100,000, round taxable income to the nearest $25 or $75 increment before using the formula. Round $50 or $100 increments up.

<u>Example</u>

- Filing Status: **Married Filing Jointly (MFJ)**
- Taxable income from last years taxes: **$120,000**
- Amount currently in IRA: **$400,000**

Determine the amount of your IRA you can convert to an IRA before reaching top of current tax bracket, and also determine extra amount of taxes that will be due as a result of the conversation.

Observations:

- NOTE: This will be based on 2020 figures, so will not be exact, but should be a good estimate.
- Current tax bracket = 22.0% (ie $80,251 - $171,050)
- Top of this tax bracket is $171,050, we will shoot for **$170,000** leaving a $1,050 buffer for good measure.

Calculations

- Roth Conversion amount for this year: $170,000 - $120,000 = **$50,000**
- Estimated Taxes <u>without</u> conversion : $120,000 X 22% - $8,420 = **$17,980.00**
- Estimated Taxes With Roth Conversion: $170,000 X 22% - $8,420 = **$28,980.00**
- Extra Taxes due to Roth Conversion: $28,980 - $17,980 = **$11,000**
- Sanity Check: $50,000 x 22% = **$11,000** (Yep, this checks out)

Considering that the next tax bracket is only 2% higher (ie 24%) if you are on a tight timeline, you may want to consider bumping up to that tax bracket. Lets calculate how much more we could convert to get to the top of the next tax bracket and additional taxes for that.

- Top of next Tax Bracket: $326,600, we will shoot for **$320,000** and leave a $6,600 safety margin.
- Additional IRA we can convert: $320,000 - $170,000 = **$150,000**
- Additional Taxes (24% tax bracket): $150,000 X 24% = **$36,000**
- Total Roth Conversion amount this year: $50,000 + $150,000 = **$200,000**
- Total Extra Taxes due to conversion: $11,000 + $36,000 = **$47,000**

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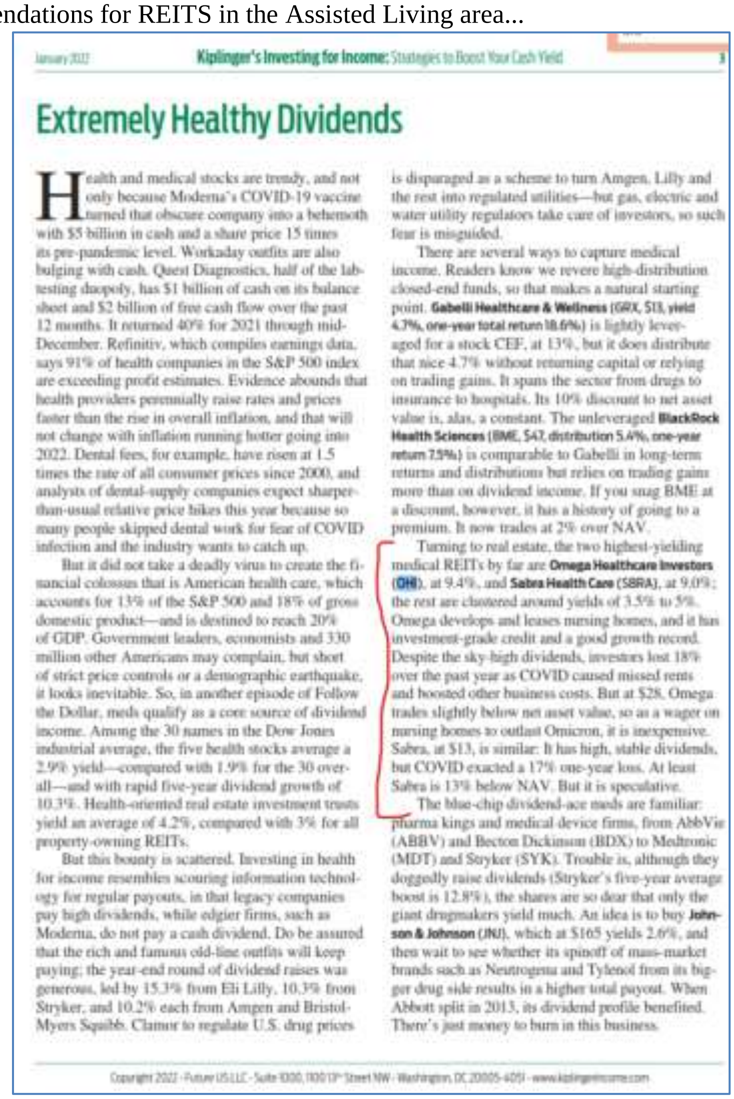
A few more things to remember when considering a Roth conversion:

- **Timing can matter** – Remember, you will be taxed at the current market value of your conversation. So if the market makes a 10% correction and your investments are down also when you perform your conversion, you will be paying less taxes, or be able to convert more equities.
- **Conversions within the same institute** can usually be done without having to liquidate your investments, you would just transfer the investments from your tax differed account (ie IRA) to your Roth. The institute will determine the market value of the investments on the day the transfer is performed for tax purposes.
- **NEVER withdraw withdrawal the money for the conversion yourself**. If you are converting an IRA from one institute to a ROTH at another institute have them perform a Direct Transfer of the funds from custodian to custodian. More details on this process here. Receiving the money directly so you can place the funds in your Roth yourself can have dire tax consequences if not performed correctly, best to avoid this completely.

- **Real Estate Investment Trusts (REITS)**

  Investopedia:
  - REITS topics (More topics available than what is listed below)
    - What are the risk of REITS?
    - 5 Types of REITs and How to Invest In Them
    - REITs vs Real Estate Mutual Funds: What's the Difference?
    - Senior Living REITs: Good for your Portfolio?
  - Kiplinger
    - 7 REIT ETFs for Every Type of Investor

  A couple of recent recommendations for REITS in the Assisted Living area...



Extremely Healthy Dividends

Health and medical stocks are trendy, and not only because Moderna's COVID-19 vaccine turned that obscure company into a behemoth with $5 billion in cash and a share price 15 times its pre-pandemic level. Workaday outfits are also bulging with cash. Quest Diagnostics, half of the lab-testing duopoly, has $1 billion of cash on its balance sheet and $2 billion of free cash flow over the past 12 months. It returned 40% for 2021 through mid-December. Refinitiv, which compiles earnings data, says 91% of health companies in the S&P 500 index are exceeding profit estimates. Evidence abounds that health providers perennially raise rates and prices faster than the rise in overall inflation, and that will not change with inflation running hotter going into 2022. Dental fees, for example, have risen at 1.5 times the rate of all consumer prices since 2000, and analysts of dental-supply companies expect sharper-than-usual relative price hikes this year because so many people skipped dental work for fear of COVID infection and the industry wants to catch up.

But it did not take a deadly virus to create the financial colossus that is American health care, which accounts for 13% of the S&P 500 and 18% of gross domestic product—and is destined to reach 20% of GDP. Government leaders, economists and 330 million other Americans may complain, but short of strict price controls or a demographic earthquake, it looks inevitable. So, in another episode of Follow the Dollar, meds qualify as a core source of dividend income. Among the 30 names in the Dow Jones industrial average, the five health stocks average a 2.9% yield—compared with 1.9% for the 30 overall—and with rapid five-year dividend growth of 10.3%. Health-oriented real estate investment trusts yield an average of 4.2%, compared with 3% for all property-owning REITs.

But this bounty is scattered. Investing in health for income resembles scouring information technology for regular payouts, in that legacy companies pay high dividends, while edgier firms, such as Moderna, do not pay a cash dividend. Do be assured that the rich and famous old-line outfits will keep paying; the year-end round of dividend raises was generous, led by 15.3% from Eli Lilly, 10.3% from Stryker, and 10.2% each from Amgen and Bristol-Myers Squibb. Clamor to regulate U.S. drug prices is disparaged as a scheme to turn Amgen, Lilly and the rest into regulated utilities—but gas, electric and water utility regulators take care of investors, so such fear is misguided.

There are several ways to capture medical income. Readers know we revere high-distribution closed-end funds, so that makes a natural starting point. **Gabelli Healthcare & Wellness (GRX, $13, yield 4.7%, one-year total return 18.6%)** is lightly leveraged for a stock CEF, at 13%, but it does distribute that nice 4.7% without returning capital or relying on trading gains. It spans the sector from drugs to insurance to hospitals. Its 10% discount to net asset value is, alas, a constant. The unleveraged **BlackRock Health Sciences (BME, $47, distribution 5.4%, one-year return 7.5%)** is comparable to Gabelli in long-term returns and distributions but relies on trading gains more than on dividend income. If you snag BME at a discount, however, it has a history of going to a premium. It now trades at 2% over NAV.

Turning to real estate, the two highest-yielding medical REITs by far are **Omega Healthcare Investors** (OHI), at 9.4%, and **Sabra Health Care** (SBRA), at 9.0%; the rest are clustered around yields of 3.5% to 5%. Omega develops and leases nursing homes, and it has investment-grade credit and a good growth record. Despite the sky-high dividends, investors lost 18% over the past year as COVID caused missed rents and boosted other business costs. But at $28, Omega trades slightly below net asset value, so as a wager on nursing homes to outlast Omicron, it is inexpensive. Sabra, at $13, is similar: It has high, stable dividends, but COVID exacted a 17% one-year loss. At least Sabra is 13% below NAV. But it is speculative.

The blue-chip dividend-ace meds are familiar: pharma kings and medical device firms, from AbbVie (ABBV) and Becton Dickinson (BDX) to Medtronic (MDT) and Stryker (SYK). Trouble is, although they doggedly raise dividends (Stryker's five-year average boost is 12.8%), the shares are so dear that only the giant drugmakers yield much. An idea is to buy **Johnson & Johnson** (JNJ), which at $165 yields 2.6%, and then wait to see whether its spinoff of mass-market brands such as Neutrogena and Tylenol from its bigger drug side results in a higher total payout. When Abbott split in 2013, its dividend profile benefited. There's just money to burn in this business.