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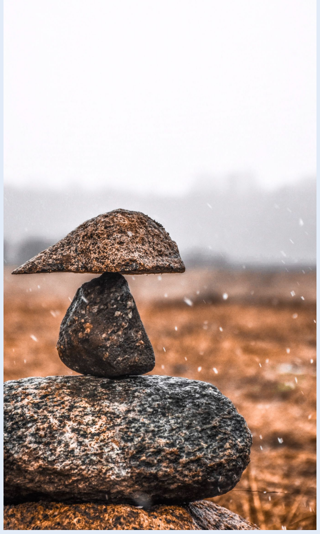
Using Your Balance Sheet as a Financial Roadmap

ALWAYS HAVE A PLAN

After several years of robust growth and generally stable conditions, the current economic environment can be better characterized by heightened uncertainty caused by factors such as inflationary risks, market volatility, and legislative partisanship. This uncertainty increases the importance of holistic financial planning and risk mitigation for individuals.

According to a recent study [1], Americans who regularly engage in financial planning are more likely to feel financially stable, have an emergency fund, be better at managing their debt, and invest with a better understanding of their risk tolerance. Not only can the process help maintain healthier financial habits, but it also creates a roadmap to keep people "on track" towards their financial goals. The roadmap then acts as the foundational baseline should any goals change, or when market and legislative environments inevitably fluctuate. Despite all the benefits, only one-third of Americans have a financial plan, and a majority of that subset have only gone through the exercise once.

Having a financial plan that is dynamic and specifically tailored for an individual can help steer their financial life towards their goals and through uncertain waters.



IT ALL STARTS WITH THE BALANCE SHEET

At Anchor Capital, we take a holistic balance sheet approach to wealth management. This top-down perspective allows us to ensure all parts of your financial life are working together, and that any changes are appropriately reflected throughout. Making well-informed decisions needs to consider both sides of your balance sheet (i.e., assets and liabilities), the specific makeup of those items, as well as your individual tax, estate planning, insurance, and cash flow profiles.

The balance sheet creation process is the critical first step in planning for your financial goals. All items within your financial life should be included, such as sizeable bank accounts, investment accounts, retirement assets, private investments, real estate, business interests, mortgages, life insurance policies, art & collectibles, etc. Our ***Document Request Checklist***, can be a useful guide for gathering materials for your balance sheet.

Clarity on your balance sheet will not only help establish a custom roadmap towards your financial goals, but it also allows us to identify potential areas of concern and prioritize the action items accordingly. These concerns can include items such as liquidity issues, lack of tax-diversification, and estate tax liability exposure.

Our holistic balance sheet approach can not only identify these risk exposures, but it can help create proactive measures to protect against these vulnerabilities and avoid potential financial setbacks. In the subsequent sections, we'll dive deeper into these topics with examples.

Tax Diversification Across the Balance Sheet

The way in which Americans save for retirement has undergone several dynamic changes over time, with the evolving trends most typically attributed to legislative changes. One of the more notable shifts is the transition from traditional pension plans to employer-sponsored defined contribution plans, such as 401(k)s. IRAs came into the fold with the *Employee Retirement Income Security Act of 1974* and immediately became a common tool for more flexible investment options and rollovers. Roth IRAs were later introduced via the *Taxpayer Relief Act of 1997* and expanded in subsequent legislations.

1. Charles Schwab Modern Wealth Survey

The emergence of Roth options increased the importance of tax diversification for individuals by spreading assets across the different tax profiles (i.e., taxable assets, pre-tax retirement assets, Roth assets). The purpose of this is to provide flexibility with how withdrawals are made during retirement years – Potentially minimizing tax liabilities while optimizing retirement income.

Despite this effort, Roth assets remain a tool more heavily utilized by younger generations. According to a study by the *Investment Company Institute [2]*, one third of investors under 40 prioritize their Roth IRAs, while individuals over 60 are the largest group of Traditional IRA investors.

Without careful and continuous planning, individuals can find themselves with significant pre-tax assets, making them susceptible to large tax liabilities during retirement years. Routine reviews of an organized balance sheet can help not only identify risks associated with lack of tax diversification, but it can also guide mitigation strategies in conjunction with tax planning.

Example | The Near Retiree

As Daniel approaches retirement, he decides to meet with the Anchor Team to help plan his transition away from the workforce. Throughout his career, he has always been careful to save as much as possible and feels good about his investments. In addition to always maxing out his 401(k) Plan, he paid off his mortgage using the funds in his taxable account. After creating and reviewing his balance sheet, the Anchor Team notes that while Daniel does have a sizeable net worth, a significant majority of his investable assets are now held in his pre-tax 401(k) Plan.

To mitigate the impending tax liability associated with the RMDs, Anchor designs a Roth conversion ladder strategy alongside Daniel's accountant
to systematically increase the tax diversification on his balance sheet. The conversion ladder would be front-loaded during the period between retirement and when Daniel turns RMD age (i.e., the years where he is in his lowest tax bracket).

Knowing the Anchor Team has a watchful eye on his balance sheet, Daniel feels prepared for his transition from the workforce and into his retirement years.

Example | The Company Executive

Sara, the Chief Operating Officer at a public company, is in talks with her firm about restructuring her compensation plan to include nonqualified executive deferred compensation ("NQDC") payments to reduce her current taxable income. Prior to finalizing the plan structure, she approaches her Anchor Team for advice.

Sara has a sizeable net worth that includes a significant stake in company stock, as well as a family foundation of which she and her adult children are the Directors. As Anchor is intimately involved with Sara's complex assets, they work with her company's executive team to finalize a NQDC plan that will pay out in installments following her eventual retirement. In conjunction with the plan distributions, Anchor proposes a plan to programmatically contribute Sara's company stock into her family foundation. This would not only provide charitable deductions in the years of the taxable NQDC distributions, but it would also reduce Sara's concentrated position in the company stock – Increasing both tax and portfolio diversification across her balance sheet.

Sara feels at ease knowing her annual taxable income levels will be more predictable and manageable when she eventually transitions into retirement.

HOW ANCHOR CAN HELP

Every individual possesses a unique financial profile based on their goals, assets, income, and risk tolerance. A holistic balance sheet approach can be an effective step in understanding your standing and pathway towards your financial goals. Contact your Private Client Advisor to review your individual situation further and design a strategic plan for you.

1. Charles Schwab Modern Wealth Survey
2. Investment Company Institute Research - July 2022

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