

## After Tax IRA Contributions?

One of the great wonders of the world, according to Einstein, is compound interest. With compounding and time, money can grow much faster than would otherwise seem possible.

An IRA has two attractions: 1) the immediate tax deduction, and 2) the opportunity to compound earnings without paying current taxes. Of the two, the latter is in most cases the more powerful financial benefit. While generally limited to smaller contributions, making them every year, consistently and over time, on top of the tax-deferred compounded earnings, can make the IRA a powerful tool for wealth accumulation.

These days, if you or your spouse is working, you both can contribute up to \$5,000 to a non-deductible IRA. If you are 50 or over you can contribute \$6,000, which means that for as little as \$500 a month a 50 year old starting today could accumulate over \$133,000 in their IRA by age 65, even if they were ONLY expecting to earn 5% a year. If you are younger, or expect larger investment returns, you could accumulate even more.

If you have a teenager or young adult child who has earnings, you might consider making a contribution to a Roth IRA in your child's name, up to the greater of their earnings or \$5,000. This can be a great way to help them get started and accrue some significant future benefits.

Savings is a function of intention and discipline. Many of our clients automate their savings so that it avoids being spent. After a few months, it's hardly missed. At the same time they are building an additional source of wealth for themselves.

Please contact us if you'd like to set up a monthly contribution or learn more about IRAs.

## Your Family and Your Money

When do you teach your children about money? What if you have a bit more money than the average person – when do you tell your children about your own family finances? Will that information potentially spoil them? What about adult children – should you always be a source of cash when they run into financial trouble? Should you share your estate plan with them, and if so, when?

At the very least, it's a sensitive and highly personal topic – what is appropriate for one family might not be for another. Some parents, by dint of their experiences, never want their children to suffer as they did and will spare no expense for their children. Other parents are more inclined to make sure their children are self sufficient before they feel comfortable passing on material wealth. Still others say they do not want their children to inherit much beyond a small token and to make their own way in the world. Multi-billionaire Warren Buffet wants his children to have "enough to do anything, but not so much to be able to do nothing."

From our experience, we'd suggest:

1. Educate your children at a young age about the importance of saving and living within their

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means. Start early with an allowance—let them make their own decisions with their money while also encouraging them to save. As the kids get older, involve them in small investments – stocks and bonds. Teach them about budgets.

2. Allowances can teach accountability and responsibility. Let them earn their allowance by being responsible for simple things they can do as part of the family – keeping their rooms clean, setting the table, taking the garbage out. Give them an opportunity to earn extra money by doing tasks that go above and beyond normal assignments.
3. Share your own money stories. How was your family with money when you were growing up? If you grew up poor, did it make you careful with every aspect of your financial life? What patterns (spender, saver, nonchalance, distaste) did your younger life create that you exhibit today? Ultimately, this will help your children better understand your ways with money and help them shape theirs.
4. Talk to your children about your intentions for your finances and your estate. You don't want to spoil your kids or give them a sense that they don't have to succeed on their own. But childhood is the time to learn skills and to prepare yourself. Will they be more prepared if you keep them in the dark, or if they learn about how to be responsible with money and acquire the skills needed to handle it well?
5. Consider setting matters up so that money resides in a trust that gives them income but little access to principal until they are at least in their 30s. While you might think your kids are going to grow up to be mature and responsible, the vast majority of kids just do not have the capability to consistently make smart long term decisions until age 30 or later. Some families defer distributions for the kids are in their mid-30s or late 40s. In most cases it is advisable to give the trustee wide latitude on whether or not further distributions are warranted. Keep things relatively flexible and absolutely clear.
6. Don't step in (or write the check) every time the kids get into some kind of difficulty. While doing so once in a while can be a kindness, learning to rely on you rather than relying on themselves can pre-

vent your children from ever learning to stand on their own. Some of life's greatest lessons come from our failures and our struggles. Be careful not to eliminate those opportunities for your kids.

Finally, it is our experience that clear "rules" established when you are not facing the pressure of the moment will help Mom and Dad make better and more united decisions. It will also help the kids know what to expect. Set clear family policies on all matters financial to help you help your children become successfully self-sufficient. Put it in writing so these policies are clear to all.

As we go through life, the challenges change, but there is always something that causes us difficulty. How much financial help we give our children is a frequent theme we hear. The questions that parents wrestle with include: How much should we lend to our children (or will we make it a gift)? How much allowance should we pay and in exchange for what? Who will pay for education, and what limits, if any, will there be?

In setting policy, you might decide that you will lend your adult children money only to help with the down payment on the purchase of their first home – and only up to an amount that would keep the monthly payments plus insurance and taxes affordable.

The goal is ultimately to achieve two simple things: 1) to help children develop a positive, conscientious and purposeful life and 2) to help them learn the skills they will need to live a successful life of their own.

#### **Ten key financial skills every child needs:**

1. How to save
2. How to keep track of money
3. How to get paid what you are worth
4. How to spend wisely
5. How to talk about money
6. How to live on a budget
7. How to invest
8. How to exercise an entrepreneurial spirit
9. How to handle credit
10. How to use money to change the world

*From: "Raising Financially Fit Kids" by Joline Godfrey. We might also suggest "Estate Planning for the Healthy Wealthy Family—How to Promote Family Harmony, Affirm your Values and Protect your Assets" by Neeleman, Garrity and Baris.*

## Important Security Notice — Money Wire Instructions

We have been informed by several of our custodians (Schwab, Fidelity, etc.) that there has been an increase in a certain type of fraudulent activity—the use of apparently legitimate client emails to make unauthorized wire requests to third parties. These requests come from what appears to be a known client email address and look valid. If successful, they can end up transferring what can be large sums of money to some clever hacker. While this has not happened to us at Mosaic, we have decided to institute a policy whereby *any incoming emails requesting*

*funds be distributed to a third party or to an account that is not on record will have to be verified by voice approval.* This means we will now call you just to make sure you requested the amount and the destination. Please note this will not impact regular monthly or other periodic distributions to accounts that have already been established and are on record.

We regret any inconvenience this might cause... but hope this will allow you to sleep a little better at night. We want to make sure your money is well protected.

## Mosaic Helps Clarify Limits on Retirement Withdrawals

Imagine knowing with confidence how much you can spend each year for the rest of your life without worrying about running out of money!

Having a “rule” to follow can be critical to help you avoid over-doing it and running out of money. The widely accepted 4% “rule of thumb” withdrawal rate suggests you should be OK if you withdraw only 4% of your investments each year. Like most rules, there are exceptions—caused by the many variables that can change from year to year. What if inflation changes? What if you earn an income? What if your investment returns differ from what is expected? The 4% rule could lead to significant variations in your long term success rate. It might be too much or too little.

At Mosaic, we’ve synthesized a lot of research and developed a program to calculate the amount that can be safely withdrawn from your portfolio each year. We start with an initial base year and then revisit the program each year thereafter to make adjustments. Clients tell us they appreciate the simplicity of having an annual spending target and look forward each year to finding out what their new target

amount will be.

No program, including this one, can unconditionally guarantee a desired result. But this approach does provide a rational framework for deciding how much you can spend and takes much of the guesswork out of the “Will there be enough?” question.

The table below highlights the range of results that are possible for a \$1,500,000 portfolio.

- If you are comfortable with a 90% confidence level (i.e. 10% chance of failure) that you won’t run out of money over a 30 year period, you could take out \$66,000 in the first year.
- If instead you require a 99% degree of confidence for 40 years (i.e., you want a very low probability of running out of money over a longer period of time) then the withdrawal amount would be \$57,000 in the first year.

Thereafter, the initial amount is adjusted each year based on the prior year’s market performance and inflation. Please contact us if you’d like to learn more.

| Sample \$1.5M portfolio in 50-60% equities portfolio<br>Rates of withdrawal and annual \$ withdrawal amounts |                |                |                |
|--|----------------|----------------|----------------|
|  | 90% Confidence | 95% Confidence | 99% Confidence |
| 30 year horizon  | \$66,000       | \$63,000       | \$58,500       |
| 40 year horizon  | \$64,500       | \$60,000       | \$57,000       |



## Around The Office...

### At the Podium:

As we enter into Spring conference season, **Norm Boone** is preparing for an active schedule. In March he'll be speaking a couple of times on best practices regarding investment policy statements and to the Northern California Financial Planning conference on Strategies and Implementation issues relating to systematizing client withdrawals in retirement.

In January **Kevin Gahagan** spoke to 100 members of the American Association of Individual Investors. His talk provided an overview of the current state of the economy and financial markets and their implications for portfolio strategy.

**Sabrina Lowell's** comments were featured on the Dow Jones News Wire in February regarding strategies for young tech employees coming into significant wealth with the IPO of Facebook and the like.

**Holly Gillian Kindel** flew to Seattle in January to deliver a presentation on coaching clients to the Financial Planning Association's Puget Sound Chapter

### Exotic Travel:

**Susan Morse** visited her hometown of St. Augustine, Florida in February. St. Augustine, with its old Spanish fort, historic homes and Flagler-built glorious old hotels, plus great beaches, is the oldest city in the nation and will celebrate its 450<sup>th</sup> birthday in 2015.

With skiing being non-existent, **Susan** and her husband Frank visited Reno over the holidays, to take in the fabulous state art museum and the mining museum and planetarium at University of Nevada, Reno.

In January **Sabrina** earned her advanced SCUBA diving certification in the Florida Keys. The certification entailed specialty dives focusing on navigation, peak buoyancy, drift diving, photography, wreck diving, and deep water. At 110 feet underwater, Sabrina explored the Spiegel Grove, a sunken Naval ship and the USCG Duane, a ship with a rich history spanning WWII through to the Cuban boat lifts in the 1980s.

**Geoff Zimmerman** and his wife Lynn will be travelling to Central Europe in May, including a river cruise down the Danube, bookended by 3 days in Bu-

dapest, an overnight in Nuremburg, and a 3 day stay in Prague at the end.

### Education - A Continuing Affair:

**Susan** and **Norm** attended TD Ameritrade's annual investment conference in Orlando, Florida in February. Dick Cheney, former Secretary of Defense Robert Gates, and Sheila Bair of the FDIC were among the speakers; also included was Jeremy Siegel, well-known Wharton professor, who continues to be bullish on stocks.

Norm also attended the first annual Shareholder Services Group conference, which featured John Mauldin and Greg Valliere. Mauldin spoke mostly about the dangers of Europe's problems, while Valliere gave his typical speed course on taxes, politics and the economy.

### Giving Back to the Community:

**Norm** continues to serve as the co-chair of the board of trustees of San Francisco's Saybrook University, a 40-yearold institution best known for granting graduate degrees in humanistic psychology.

**David Lawrence** is taking on a group of 3rd and 4th graders to become the coach for a Mill Valley Little League Team. He hopes his skills are more advanced than those he plans to lead.

The Junior League of San Francisco will host its 86<sup>th</sup> annual Fashion Show Gala at the Fairmont Hotel in April. As a Board member, **Sabrina** will be in attendance contributing to the efforts to raise nearly \$250K in proceeds for local non-profits.

### Furthering the Profession:

**Kevin Gahagan** will continue his involvement as a member of the conference committee for the Investment Management Consultants' Association. The group will be responsible for planning IMCA's four specialty conferences during the coming year.

### Other Fun Stuff:

**Geoff** and Lynn will celebrate their 15<sup>th</sup> anniversary in April, and a week later Geoff hits the half-century milestone.

## Potential for “Super Downgrades” in the Municipal Bond Market

With interest rates as low as they are, investors are reaching for income. Recently, muni bond interest rates have appeared attractive (high, relative to many other bond types). One of our information sources suggests that muni bond investors should be cautious—higher rewards most often mean higher risk!

There has recently been news of the potential for “super downgrades” in the municipal bond market, suggesting many muni bond issuers could suffer meaningful declines (three or more notches) in their credit ratings. The escalated downgrade concern stems from the Dodd-Frank Act, where one of the act’s terms requires rating agencies to review their credit rating methodology at least annually. With the rating agencies completing their downgrading of sovereign and banking institutions, they are now turning to muni bond ratings. Observers believe this will almost certainly result in some muni credit downgrades.

Muni credit downgrades have been increasing since the beginning of 2009, and toward the end of last year, the downgrade-to-upgrade ratio reached its highest level since the beginning of the financial crisis. While significant, Moody’s reports these downgrades accounted for less than 1% of their rated muni universe. Most of the downgrades have sprung from rather weak fundamentals due to subpar economic growth, a still-strained real estate market, high unemployment levels, and questions around federal aid

budget initiatives.

While we expect the downgrade trend to continue, we do not expect them to occur across the board.

They are most likely to occur in these areas:

- A majority are likely to be seen in the peripheral areas of the muni market such as land-secured (dirt) bonds.
- High-yield muni bonds are likely to be the most vulnerable to super downgrades, and therefore are likely to experience the largest price declines.
- Local municipalities will probably face the brunt of severe downgrades, as opposed to the state level, as state tax revenue has been on the rebound for a few quarters, while local tax revenue remains weak after peaking in 2010. That said, states continue to struggle with large debts related to pensions and health-care programs, and there have been some state-level downgrades.

In this environment, diversification continues to be critical to avoiding the risk of an individual bond suffering a significant loss. We remain confident that our muni bond funds are well diversified. This will greatly reduce the impact of any given bond being downgraded. Additionally, most of the funds we use tend to stick to higher quality issues and avoid the high yield bonds that would be most subject to a downgrade.

*Source: Litman Gregory AdvisorIntelligence*

### Welcome New Employee: Liz Revenko, MA, MBA



Liz has had a lifelong passion for two seemingly disparate things—working with numbers and working with people—and is making a career shift to personal financial planning to enjoy the best of both worlds. Before joining the team at Mosaic, Liz worked as an Economist and Business Analyst for non-profits and global corporations, and as a middle school science teacher. She is completing her CFP® certification through UC Berkeley. Liz received her BA in Biology from Wellesley College, her MBA from San Diego State University, and her MA in Economics from University of California, Santa Barbara. She is also an award-winning fiction writer. She now lives in Marin and enjoys hiking, cooking and fattening up the resident cat. While Janette Rodriguez is out on extended leave, Liz is helping us with Client Services.

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Celebrating our 25th Year

## Thoughts to Live By

"The creation of a thousand forests is in one acorn." -  
[Ralph Waldo Emerson](#)

"You miss 100% of the shots you never take." - [Wayne Gretzky](#)

"Be a good listener. Your ears will never get you in trouble." - [Frank Tyger](#)

"Convictions are more dangerous enemies of truth than lies." - [Friedrich Wilhelm Nietzsche](#)

"Fear less, hope more; Eat less, chew more; Whine less, breathe more; Talk less, say more; Love more, and all good things will be yours." - [Swedish Proverb](#)