MedTech Wealth Advisor Podcast Episode 21: Case Study: Crafting a Financial Independence Plan

Matt Nelson (00:01.665)
Welcome back to the MedTech Wealth Advisor Show. Thanks for joining us. I'm your host, Matt Nelson, a managing partner here and senior financial advisor at Perspective Six Group at Focus Financial. And the goal of the show is to both educate MedTech community about financial planning and to be a resource and help when you need it. I'm joined today by Jacob LaRue, who is, of course, a esteemed colleague here with us in the group. And...

On today's show, we're gonna go over some case studies. So in previous episodes, we discussed the financial independence planning and our team's philosophy behind that. Stop that for just a second. I'm gonna go back and just do that one sentence.

Bill Tucker (00:47.694)
Okay.

Matt Nelson (00:54.721)
Okay, ready. In previous episodes, we discussed financial independence planning and our team's philosophy behind that. And so today I thought we'd follow up by just doing a real life example, more of a case study of one of the clients that we've worked with. And specifically we're gonna focus on how we help clients reach financial independence under some unique situations. I mean, obviously there's a lot of...

examples we could give, but we thought this one would be pertinent. So Jacob, why don't you give us a background on this case?

Jacob LaRue (01:28.74)
Yeah, I'll set the stage a little so, you know, this client might not sound too different than some of our listeners. So, you know, mid 40 couple, they got two kids that are eight and 10 years old. They're both working at med tech companies, public public companies right now. And they just feel like they've been kind of going really hard in terms of work life lately. So they're feeling a little burnt out. Long hours, tired when they get home and.

don't feel like they have time for their family. So they're, they're kind of confused on some of their compensation to they have some equity comp, stock options. That's what they call it. So we'll see what that actually is when we get further into the details here. But they've come to us to kind of help them make sense of their financial life and then kind of set, set some personal goals to, you know, like spending time with more family. So

From there, I think, Matt, why don't we just talk about what we're gonna discuss today. So when we first meet with the clients, what do we do?

Matt Nelson (02:34.817)
Yeah, I mean...

Yeah, so if you remember back to the prior episode, we go through things in a specific order. And so we always want to start off with, what are your values? That's really the most important item to get the framework set.

What do you want out of your life? And then once we understand that, we can of course dig into the specifics. What do you have today? What do you have coming in in the future? And then follow that up with what gaps do we need to fill? What information do we not know yet? And we have to really get all that understanding first before we can really give advice. So again, with this case study in mind,

We'll start with the first point. So we took this client through our values exercise and we try not to overly complicate this. But again, understanding what they want out of life is really the most important piece of this puzzle before we can give any advice. So understanding people are coming from different backgrounds and they have different perspectives.

you know, sometimes it's hard for people to articulate what they really want in life. And so I'll give you some example questions that we'll go through in that first meeting. We might start off with something like, you know, what would you be doing if you had all the time and money and support to do what you love? And just, you know, think about that. Like if you really just didn't have to worry about anything, get everything in place.

Matt Nelson (04:18.465)
What would you be doing with your time? Where would you live? Who would you be with? Another question that I think prompts, you know, good information in this area is if you could improve just one area of your financial situation, what would that be? And, you know, a lot of times there's sort of a presenting problem. People come to us with a challenge and that may be the item we're going to we're going to address.

You know, specifically, I don't like my portfolio or I have this tax situation or whatever. But if you dig a little deeper, there might be one or two things beyond that. And then often we'll follow that up or kind of finish up this part of the conversation with, you know, let's look back. Let's imagine we're one year out and we're looking back. OK, what would have had to have improved for you feel like you made?

good progress in your financial life. And I think sometimes that's a little easier to articulate it. It relates back like, well, gee, if I'm a year from now and these one or two or three things happened, I'd feel pretty good. Well, that gives us some good direction. So when we look at the, we think about this case study and the information they told us and the facts they had involved, you know,

Jacob LaRue (05:30.404)
Yeah, absolutely.

Matt Nelson (05:42.369)
because you were involved in this case quite heavily Jacob, how did they end up with, what did we form for their financial freedom statement?

Jacob LaRue (05:49.86)
Yeah, so as Matt was saying, every client has different values and what we like to do is go through that exercise and then develop what we call their financial freedom statement, which is essentially their mission statement for their life and financial life. So in this case, everything the client told us from the get -go was kind of centered around.

Jacob LaRue (06:13.604)
and wanting to understand their work -life balance a little better and how we could optimize that. So from there, we formed their financial freedom statement. And in this case, it was, we wish to find more work -life balance that allows us to use our resources for enjoyment today with our kids while they are impressionable, while still considering our long -term financial independence goals. So you can kind of see how.

At the core, they really care about their family, but at the same time, they are still concerned about their trajectory for the long term. So we gotta find that balance there.

Matt Nelson (06:49.569)
Yeah, you know, and this isn't too uncommon. We'll find a lot of variations of this kind of, you know, live for today while being smart in the future. And the difference is, and I think the key is really to use your own language. And so, you know, as we're trying to guide people, be that guide, we're not trying to instruct or...

you know, like impose our own ideas on the situation. We actually want to pair it back. The exact words people are using, cause that's, that makes it more powerful. And so again, where I suppose you could do a psychological study on this or probably would boil down to really a handful of themes as we see across, across client base. they all have their own variation in way they think about it. So,

Jacob LaRue (07:36.804)
Mm -hmm.

Matt Nelson (07:43.969)
That's probably what's most important, to give the power behind what we're doing.

Jacob LaRue (07:47.812)

Exactly. Yep. And then, you know, from, from there, once we build that financial freedom statement, we can kind of start figuring out what the client has today that could help them reach those goals. And then, like you said, a little later on, we'll talk about what we need to maybe discover a little more, dig a little deeper into. So in this client's case, we kind of just gathered some facts right off the, right off the bat. So we would look at things like their pace,

their tax returns, investment statements. But as they said, one of the big things that they just couldn't understand was their stock options or equity comp. So getting the grant details for them on that was a big one. Go ahead.

Matt Nelson (08:32.097)
Yeah, in fact, we learned some different things than what they understood, didn't we, in this situation.

Jacob LaRue (08:36.804)
Yes, exactly. Yeah. So there was some big things that we discovered through reading those documents and specifically with them, what they were calling stock options was more restricted stock. And we've talked about that in the previous episodes, but you know, restricted stock is a little more straightforward. You don't have as much control on the taxes, not as many decisions to make. So we kind of help them navigate those. But more importantly, we pointed out,

that their stock wasn't really vested yet. So through those grant details, we were kind of seeing the vesting schedule and it actually wasn't going to vest for two more years. So if they left their employer now, they pretty much forfeit all that future compensation. So that opened up a really good conversation. Like, look, if you can just hold on for two more years, the value in this case was about $200 ,000. So.

That ended up being a big deal to them. They kind of got to see, okay, this is why I'm working so hard. There is a future outcome to it. And that allowed us to really tie it back home to their financial freedom statement in essence.

Matt Nelson (09:49.697)
Yes. And it's that balance of living today versus the future. It just keeps coming back to this discussion. If we had just simply dove into what to do with their stock options, we wouldn't really have gotten to the essence of the why, why we're handling. So like you said, why are they putting in the long hours and so forth?

Jacob LaRue (10:11.748)
Mm -hmm.

Matt Nelson (10:19.361)
What else? What kind of happened next here?

Jacob LaRue (10:22.436)

Yeah. So, you know, again, we're gathering as much information we can when we start a relationship. So we got that stock option detail and we kind of talked about the tax ramifications there. But then we got some other details. You know, they had this land that they had purchased several years ago. And at one point in time, they wanted to build a new home there for their family. But, you know, when work gets busy and life gets busy, those types of things often kind of fall off to the side.

And in this case, they just kind of said, you know, we don't really have those aspirations anymore to take on that project. We're open to selling the land, but we're super scared about the tax ramifications. So, you know, in previous episodes, we've talked about taxes a lot. And one thing that we really needed to dig into there was kind of the coordination of what we call a tax plan. So remember.

In two years, they were about to have all this equity compensation hit in the form of restricted stock units, which is going to be taxable that year. Yup, at ordinary income rates. So that's a big deal. I mean, you have your salary and then you have $200 ,000 on top of it in one tax year. That creates a big tax burden. So then with the land, what we had to do was, okay,

Matt Nelson (11:27.873)
income.

Jacob LaRue (11:42.852)
You're open to selling it, but we actually don't know what you purchased it for, when you purchased it. So we had to get those details from them. So there's a lot of follow -up questions that go on to gather the information, but we were able to get that information for them, kind of lay out a tax projection. And it ended up being not a terrible tax situation on the land side. But they were still going to have a tax liability when they sell it at capital gains rates. So capital gains rates are a little cheaper.

But you know, there was a reason to have a discussion about maybe offloading this land before the restricted stock comes due in a couple years.

Matt Nelson (12:21.569)
Yeah. And if I remember right, the indecision had to do with, you know, well, could this land appreciate more? Like, should really we just hold onto this because, you know, X, Y, and Z are happening and we could make some money on it to offset the taxes. But then to your point with the timing, that actually changed the discussion because of the RSU issue.

Jacob LaRue (12:49.732)
Exactly. Yeah. You know, sometimes it's not best to have two big tax issues in one year. So we were kind of trying to play that game a little just maybe we need to spread the tax impact out. And then going back to their financial freedom statement, we kind of knew that they needed a break from work. So, you know, we were looking at this land as potential value for them to spend from if they were to sell it. So if they sold the land, they get a pile of cash.

in a couple years if they wanted to take a break, they have some cash to spend from to supplement that income that they were going to lose from their salaries and things like that. But yeah, the taxes were a big conversation lining up when to realize certain tax liabilities and really just trying to avoid a big tax hit all in one year.

Matt Nelson (13:39.553)
Yeah, it's that constant rubric of pay more taxes, pay less taxes, higher return, less return, actual use of money, delayed gratification. And there's no exact formula on how to do that. So you have to pick the trade off. There's going to be a trade off somewhere there. But looking at the financial freedom statement, enjoying time now, enjoying time with their kids, potentially giving up a little.

I should say giving up a little potential return to have the cash earlier was more important. You know, lining up the tax situation, maybe selling one or the other first saved a little there. So that rubric is never exact and precise. This is more art than science sometimes.

Jacob LaRue (14:28.1)
Exactly, yeah, it's very, very much an art. You know, numbers are just numbers, but as we've discussed before, just because it makes sense from a math perspective doesn't mean it makes sense for the person, so.

Matt Nelson (14:41.857)
Yeah. After that discussion, we kind of wanted to look at the longer term picture as well. So if you remember from prior episode, why we think it's so important to build out that financial independence plan. Again, when they first came to us, this particular case, the question wasn't necessarily a retirement planning question. It started off, what can we spend now? But we needed to build out that framework.

Jacob LaRue (15:08.068)
Mm -hmm.

Matt Nelson (15:11.713)
of the next 20 years and how much they would need to save so that we could back into okay how much could you spend today. So you know just kind of go into how we built that out a little bit.

Jacob LaRue (15:24.292)
Yeah, that was a really big conversation that happened too, because oftentimes as people in general, we're super focused on the present. And sometimes we don't realize what those choices today, how they impact like our future results. So that's why we need to kind of look at things, not only just like from a today standpoint, but from a 20 year, 30 year standpoint, like you said, Matt. So in this case, you know, because we gathered some good data,

we were able to kind of see, okay, we know what your liability payments are. We have your tax return. We know what you're paying in taxes. We got your pay stub. We know what you're saving to your foreign K. So now everything else that hits your bank account, we can kind of back into what you might spend just on your everyday expenses. So groceries, entertainment, utilities, things like that. So that's how we kind of develop what they could spend today. And then we kind of like to just carry that out.

because more often than not, people don't want to decrease their lifestyle. If anything, they want to increase it in retirement or as they have more freedom. But so that's where we play that game again is, okay, do we have things planned out to meet the expenses you're going to need for the next five, 10, 20 years? And then on top of that, we need to build in these travel goals that you guys had told us about, you know?

If you take a sabbatical, how's that gonna impact things? I mean, sabbaticals can be expensive, especially if you're doing world travel. So all those levers are things that we go through with clients and kind of just show them, okay, if we do this, it might cause this in the future. So we gotta find that balance there too.

Matt Nelson (17:11.457)
Yeah. And, and it, it can get, it can get a little different, especially with our clients that have significant equity compensation. there there's, let me, let me rephrase it. When, when you have sort of a steady income and just regular cost of living adjustments and sort of a little bit of steady equity compensation or, or business income, doing those long -term projections is a little bit easier because it's kind of an upward.

you know, 45 degree line in general. But it, but in some cases we'll have, it's like, like in this case, probably putting in more effort than is sustainable for 20 years. So, they're making significant, salary and a significant equity comp and they may not like we talked about may actually need a break. So, having a framework as if it's steady,

then helps to kind of make decisions based on these really lumpy income flows and start and stops, sabbaticals, et cetera. Because of course those are unpredictable. We can throw those in as what ifs, but we don't know when that's gonna happen. We can easily see a client, you know, let's just assume we have the conversation. Let's just assume that you're gonna retire in 20 years. We don't know. Let's just use that as a number. Call it a what if. And then,

Jacob LaRue (18:33.444)
Mm -hmm.

Matt Nelson (18:36.321)
What if number two is you take a sabbatical in two years and then you come back to an income that's half what you're earning today. You know, all kinds of those scenarios can be thrown in to just get people thinking, to just imagine what's possible. But without that general long -term, you know, almost like baseline scenario, it's kind of hard to think about these what if scenarios.

Jacob LaRue (18:49.988)
Yeah.

Jacob LaRue (19:00.644)
Exactly. I like what you said too. You know, the equity comp side of things is so lumpy that oftentimes we get clients that, you know, they get a $200 ,000 stock option grant or something like that, and they don't have a plan in place for what to do with that cash. So then it just ends up getting spent. So in this client's case, you know, if we, if we didn't dig into those details and kind of show them, Hey, this money could be used for a one to two year sabbatical type of thing.

they probably would have just spent it on something that didn't really fulfill what they wanted out of their life. They might have just gone out to eat with friends instead of really taking travel with their family that they wanted to. So that's what I love about this type of thing.

Matt Nelson (19:45.953)
Yup. Yeah. And that 200 ,000, while no small numbers, you know, maybe on the small end to some of these, some of these situations can be life changing money. and that, that really needs to be planned ahead for and so forth. So yeah, very good. I mean, I, I hope, hopefully it was helpful just to kind of go through, the general framework again, that we talked about last episode, but with some more specific, some more real life example to it.

Jacob LaRue (19:55.268)
Mm -hmm.

Matt Nelson (20:14.401)
I don't know, is there anything else you want to add kind of on this study for now?

Jacob LaRue (20:19.524)
Yeah, I think for now that's probably it for this one. We'll probably revisit this in a future episode and kind of dig into like the investment plan side of it and maybe the risk management side of it because today was really just about what do they have today? What are they spending and kind of what do they value? So there's other parts of their plan that we'll dig into.

Matt Nelson (20:38.433)
Yeah, absolutely. Well, that's, that's good. I think that's it for today. I mean, thanks listeners so much for joining us talking about the, the financial planning case. and if you know anybody that needs guidance like this, just click the share button, send it to them directly. you know, if, if you're a fan of the show, leave us a review, it really does help us out. and you can always subscribe, make sure you get this content, delivered to your inbox on a regular basis.

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