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EXPERIENCE LIFELONG WEALTH

THE FOUR LEVERS OF FINANCIAL PLANNING

Strategies for Professionals

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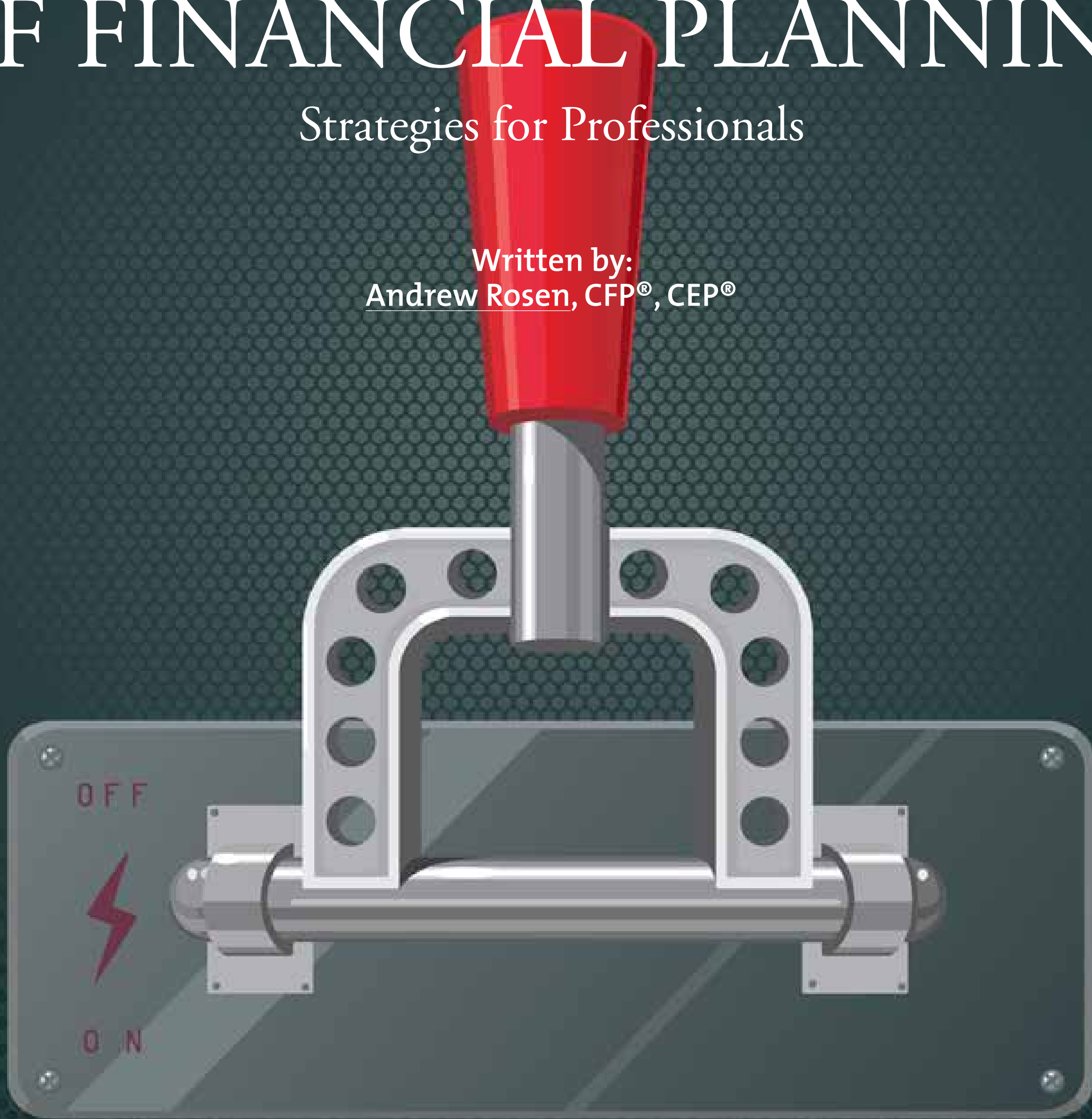

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CHAPTER 1
The Financial Impact of Working Longer

The last thing any working professional wants to think about is working longer. However, working longer is an important lever (or option) to pull when it comes to your retirement lifestyle. It potentially allows a "richer" retirement and can give "more" to your lifestyle during your working years. In my experience of the 4 levers of financial planning, this is the one most are willing to do (and also the simplest).

Pre-retirement benefits.

It's been said to maintain one's lifestyle in retirement, you should be saving 20% of your take home pay. I am a big fan of saving; however, the reality is a dollar can only be sliced in so many ways. I'll use my own life as an example. Besides the necessities (mortgage, food, etc.), I have my children's swim, dance, gymnastic, art, and music lessons. Then there's vacations and date night (which is very important, too). Also, there are other necessities my wife tells me about – like getting hair and nails done!

My point is, by the end of the month it can be a stretch for many of us to conjure up the required 20%. Now, I am not suggesting to skirt your responsibilities of saving, however, many of us choose to live in the now over planning for the future. I get it. My father died young and it made me understand the fragility of life. Many working professionals simply can't afford to save more due to the demands of raising a family.

So, how can working longer help? It seems intuitive, but working longer provides that back end security. If we made a bad decision, got a late start, or just chose to live more for today, the reality is we can choose to work a few more years to make up for lost ground.

Let me be clear though — working longer shouldn't be your only financial planning resource! Putting all your eggs in that basket can be scary and very risky. There are many things you can't control. What if you or someone you love gets very sick? What if your kids need help? What if your employer no longer deems you relevant, hiring a newer and cheaper model?

Retirement benefits.

So far, I've established what working longer can mean during your employment years. Let's now dig a little further into the impact it could have on your retirement lifestyle. It's important to note working longer than planned can take many different forms. For starters, many professionals decide to go part time or consult in retirement. I've found this can often be a great compromise to slowing down, without putting the car in park.

Others work harder the last few years. They see it as a pay day, or time to make up lost ground. During these years, generally you make the most money of your career. Also, you most likely have the least amount of expenses (often mortgages are paid off by now and/or your children are no longer a financial liability).

If you work into your mid to late 60s and cover your expenses, generally it's a good idea to delay Social Security. Remember, Social Security not only has adverse tax implications if earning a high salary, but every year you wait (until age 70) translates into 8% higher monthly benefit. That can be a huge bump to your retirement viability, as it locks in a high fixed income in retirement. For many, it is the only consistent pay check received when work stops.

Although retirement investments are subject to market volatility, a well balanced portfolio statistically means your money will likely grow roughly 3 out of every 4 years. Therefore, if your retirement is delayed a few years, your money will likely benefit from the magic of compound interest (although there is no guarantee that past performance is indicative of future returns). A million dollar portfolio receiving 8% a year growth per year will grow to approximately $1,360,488, if you don't touch it for 4 years.

Let's stay on this train of thought. Not only do your dollars grow substantially on these back years, but it's 4 less years of pulling these assets. Let's say you need $80,000/yr to subsidize your living from your investment portfolio. By waiting these few years, you have just given yourself additional time and put less risk on the returns necessary to not outlast your funds.

I'll assume, regardless of when you retire, you still pass away at the same age. Under this assumption, someone retiring at age seventy (vs. age sixty) has 10 less years to rely on their nest egg. This impact can be huge!

Finally, working those extra few years allows you to have one other key impact. It provides the ability to aggressively hoard money these last few years. If your mortgage is gone and children expenses are in the rearview mirror, all while earning at the highest levels of your life, you should be able to save substantially these final few years.

You can easily see the perks of working longer run deep. They afford you the ability to save more, which then can grow more. Your requirement on those savings will be less and higher fixed incomes de-risk your retirement. Not bad for a days (or a few extra years) work.

Final thoughts.

Working longer is my first of the four levers which can be pulled to help the viability of a financial plan. I think it best to use any of the levers I write about in conjunction with the others, to not put too much stress on any one strategy.

Hopefully, you've seen the reasons working longer can help. However, it shouldn't be the foundation of a sound financial plan. Rather, use it as one tool which can afford you much flexibility when it comes to both pre- and post-retirement lifestyles.

CHAPTER 2

Saving for Your Future

Being pulled in a thousand directions is tough, especially when you are in a professional career. For many, it takes a serious toll and wears you out. Knowing you don't want to work forever is logical; it is the "end game" to any career, of course.

Previously, I've written about my four levers (or options) of financial planning. Working longer is one of those levers; however, in this chapter, I'll focus on another - Saving.

The Basics.

When it comes to the levers to help achieve your financial goals, the rate at which you save is a powerful resource.

There are many benefits to saving more when pertaining to your financial life.
A few benefits are:

1. It provides greater assets, which gives you more flexibility when it comes to the future.
2. Saving a higher percentage means you are spending less of your income.
3. More dollars are compounding for you, which helps get you to that magic number to retire.

Let's dissect these three examples a little further, shall we?

Benefit 1:

If we start teaching ourselves to save right out of the gate, it's likely your financial health will look like that of a thoroughbred. Common consensus says to save 20% of your after-tax income. As I've eluded to in the past, I say save anything and everything you can. While 20% is a good threshold to keep in mind, the reality is you'll be teaching yourself great financial habits as you learn to save.

In my years of financial planning, I've noticed those who save early and often are substantially better positioned than those who don't. Whether it was their parents instilling this idea them, a great boss, or a mentor, these people who trained to save from the get go are financially on the right track.

The benefit is saving for a nest egg, rather than spending money on something of little value. That nest egg that will afford substantially more flexibility when it comes to the future. They'll be able to buy that beach house, put their kids through college, or perhaps have the pleasure of retiring on their terms (not someone else's).

Benefit 2:

You're probably saying to yourself: "We get it already, Andrew. Saving more is a good thing." True, but let me share with you anecdotally what I have noticed through the years. Clients who were taught to save first almost always have more money, granted. However, a very important thing additionally happens; they start to create healthy financial habits. These individuals don't spend emotionally and have a real respect towards savings.

Almost more important though is they naturally are comfortable living on less. This isn't to say that they don't have their "splurge" category (most everyone does). These individuals; however, simply need less of their income on which to live. As their income increased through the years, so did their savings. Learning to live on less means when it comes time to live off of these savings (which almost always needs to happen), they'll simply put less strain on it.

This behavior is very healthy. When we run financial plans, it almost always leads to a higher probability of success. Those who save more can spend more in the future, even if not always needed. Instead, they live a more worry-free life and typically retire earlier.

Benefit 3:

My final key benefit to saving more is one of my favorite phrases in the English language — "compound interest." To save is both a marathon and a sprint. The marathon is you have to save for a lifetime to continually see the benefit. It takes time to accumulate money. For most of your savings life, the growth in your savings will occur due to additions. There are two key parts to savings. First, how much you save, and second how long you save.

I'm assuming you are working with someone to help you maximize where to put those additional savings. Therefore, let's take a moment to look at some math (yay, math!).

Example 1:

Let's assume one starts with an initial investment of $1,000, receives 7% annualized interest, and has a working career of 40 years. Now, Person A contributes $500/mo and Person B contributes $1,500/mo (less than the 401(k) maximum mind you), so what is the difference? Well, Person A will have roughly $1,328,718 saved for retirement. Person B would loosely have $3,953,531 saved.

What does this mean in the real world? If you subscribe to the 4% withdrawal rate formula, it's living off of $53,148/yr vs. $158,141/yr. That is an enormous retirement lifestyle difference.

Example 2:

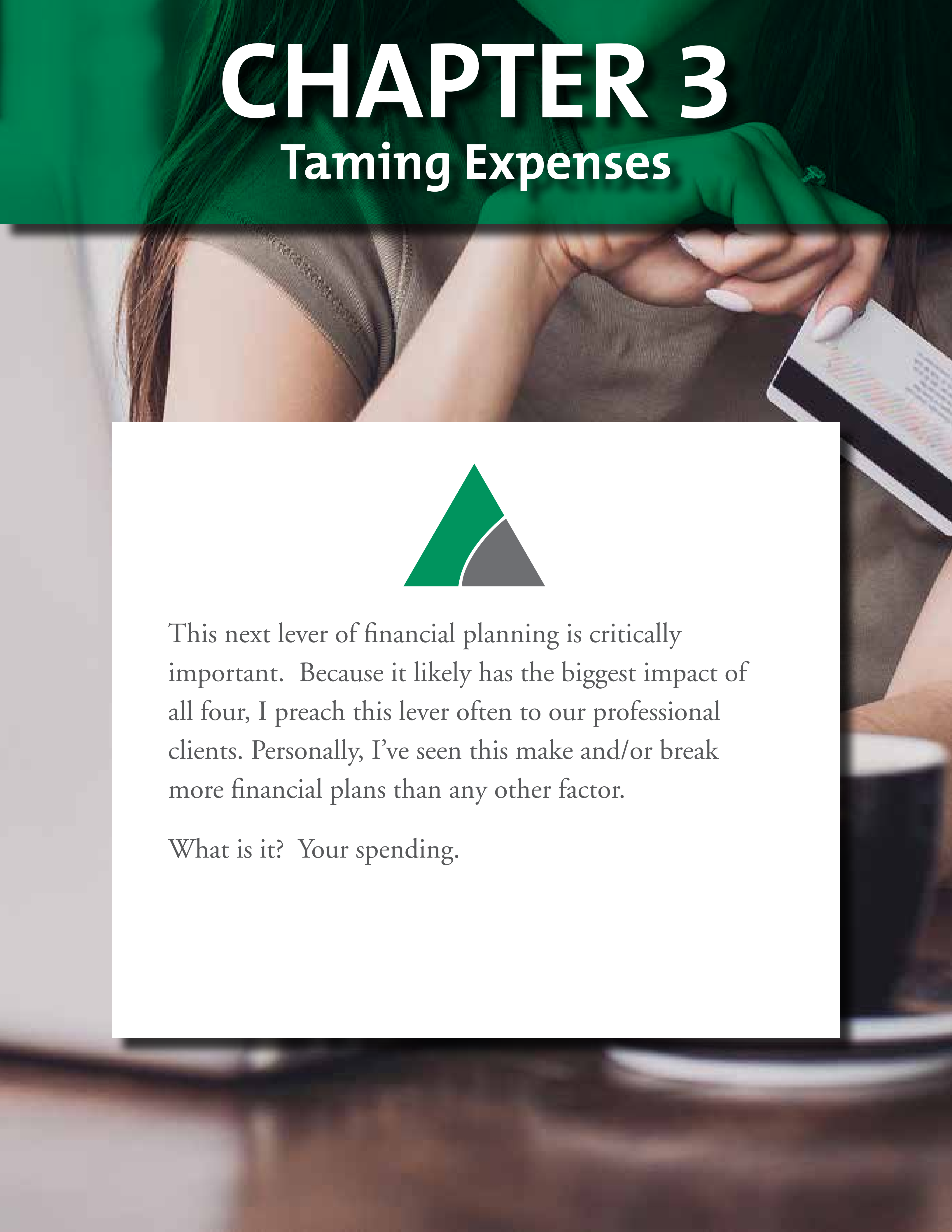
For this example, let's use the same Person B and basic assumptions ($1,000 investment, $1,500/mo, 7% rate of return, and 40 year investor). The twist here, what if Person A saved for only 30 years instead of 40? (Remember, we've established that saving for 40 years at this rate would yield about $3,953,531.) What do you think Person A would have? Go ahead take a guess… I'll wait? These ten years amounted to only $1,838,072 (less than half)! This speaks to the marathon portion of savings; it isn't until the last ¼ of the race where your money soars past the competition. As one of my favorite childhood books suggests, slow and steady wins the race!

The sprint part of savings takes advantage of those good market years. The sooner your nest egg gets to a sizeable amount the more likely you are to have that advantage. Since we don't know when they are coming, it is important to get there quickly.

For instance, 2017 was a very good year in the markets. Let's say your investments did 20% last year. Those that got an early start and had $200,000 saved got essentially a free $40,000 in market accretion! That's likely more than what most of us are able to comfortably save in any given year. This portfolio increased by doing virtually nothing but saving. If you were slow out of the gate and only had $20,000 saved in 2017, you unfortunately only saw a $4,000 increase. Not to worry though, we'll see great return years again. (I just can't tell you when.)

Hopefully, this makes cents (get it....cents).

I've dealt with thousands of clients through the years and I certainly understand the strain a working professional has when it comes to extra capital to save. It is not easy sometimes. Hopefully, these principles and illustrations can help. Even a little bit more can have a large impact on your financial future and give you the flexibility you wish to utilize.



CHAPTER 3

Taming Expenses

This next lever of financial planning is critically important. Because it likely has the biggest impact of all four, I preach this lever often to our professional clients. Personally, I've seen this make and/or break more financial plans than any other factor.

What is it? Your spending.

When we build a financial plan, I tell people: "The single most important piece of information you can provide is an accurate depiction of how much you spend." Why do I say this without fail? Because, it's true.

Understanding your monthly outflow is critical in your probability of financial success. It's also a look into ones financial "soul." Typically within minutes of understanding an individual's monthly inflow and outflow, we can determine how much needs to be done for this plan to work.

Why so serious?

Understanding (and then taming) your expenses will do many things for your financial health. For starters, how can you begin to get a sense of where you're going if you don't know what it costs to get there? None of us can predict every last expense it will take to achieve our goals. But, understanding your base needs (and spending habits) does go a long way towards planning in an uncertain world.

Change – more than just coins in your pocket.

The next important component is change. It's difficult, I know. I mean really, really difficult! Honestly, I almost never suggest someone lower their expenses as a first plan of attack (unless absolutely necessary). While I do think it has a massive impact on one's financial situation, I don't recommend it because most are able to utilize other tools first (before adjusting their spending). Many would rather work longer, make more money, or save more – literally almost anything than adjust their current lifestyle. We are creatures of habit. Once we establish the spending habits, getting us to budge is like pulling Excalibur out of the stone.

Natural athletes.

When I see a new client spending responsibly, I say they are like a natural athlete; one every coach wants on his team. Those of you fortunate enough to coach your kid's sports team know exactly what I mean. You have that one child who possesses unbelievable raw talent. It may not be harnessed yet, but you know they'll be destined for success. (I'm still hoping one of my children is that star athlete. As of now, they are more interested in the snacks after the game.)

I feel that same excitement when I get a natural "spending" athlete; a client with endless raw talent, spending way below their means. They have endless potential; however, I find many are quite scattered. Once we start collaborating, it almost inevitably ends with a recipe for success. (Get me a Gatorade! I feel my game face coming on just thinking about it!)

Conversely, the most challenging individuals are those with the opposite habits. These athletes have a horrible backswing and have been doing it that way for years. It takes time to figure out their bad habits and a LOT of handholding. Working with these individuals can be very rewarding, assuming they are amenable to change. However, the climb is higher and the risk for failure increases in correlation.

It’s science.

Actually, it’s more a combination of math and logic. But, think about all the wonderful benefits which come out of spending less:

1. Needing less savings to sustain this lifestyle.
2. These savings can be subject to less volatile investment vehicles.
3. There will be less strain on these investments.
4. Needing less to be happy, thus content on spending less now.
5. Easier to emergency plan (less to adjust).
6. Generally able to save more.
7. Greater flexibility down the road as it pertains to major life decisions.

The list goes on. The less we spend, the greater our probability for success. It’s science!

The Tale of Two Clients.

I often find a parable can help accentuate a point. Therefore, I’ll give it a shot in my “Tale of Two Clients.”

Client A: This is a 50 year old making $150,000/yr. His spouse makes $50,000/yr. They also have three children. At the end of each month, they are barely making ends meet. They have a fair nest egg saved, as they contribute the minimum required to get the match in their 401(k)s. But, they don’t add a dollar more. There is some residual credit card debt which seems to have been haunting them for years. Every time they get it paid off, another emergency occurs. That debt piles right back up again. These are good people who live in a nice home, drive nice cars, and truly care about their children’s future.

Client B: This client is the same age as above. But, these clients only have one working professional in the house. The wife makes $150,000/yr, while the husband stays home tending to their three children’s hectic lifestyle. The big difference; however, is they had it ingrained from the moment they met that debt was bad. Thus, they never had accumulated any destructive debt. Their parents taught them if you can’t buy it with cash, you can’t buy it at all. As a matter of fact, they’ve already paid off their mortgage on a lovely and affordable home. Their cars are decent, but older and paid off. At the end of each month, there are a few thousand dollars piling up in a six figure checking account.   The wife also is maxing out her 401(k) and gets home every night to have a family meal. These are equally as lovely people with great family morals.

In regards to these two clients, I can tell you I have seen plenty of both of these professional clients. They are both a pleasure to work with, get a ton of value out of our partnership, and care about their family’s financial success. The one key difference here is their monthly outflow. I didn’t even mention what they each have in retirement savings. If you had to guess, which client is better positioned? Also, which client do you think will be easier to mold into a superstar athlete? If you guessed B, then right on! It is client B.

The key to success.

Hopefully, you can better understand the challenges of a high spend rate. I always try to instill good habits in clients. One of those good habits is to tame spending and increase savings automatically (especially every time you get a raise).

Being a busy professional myself, I also understand the challenges of quelling ones spending (particularly when we put our families first). We work hard for our money, might as well enjoy it, right? My goal is to help you understand another key influencer in attaining a responsible and healthy financial lifestyle. The good news is we do have other arrows in our quiver, just in case getting your spending in check is not doable.

Just remember this: what it costs to be you is where your financial planning begins. The rest is how we'll adjust.

CHAPTER 4

The Uncontrollable Variables

Thus far I have discussed three of the big variables to one's financial success: how much you save, how much you spend, and how long you work. These three levers are all critical to understanding the impact on your financial future. The other thing these have in common is that you can control your own destiny.

My fourth and final key lever will be a combination of things over which you have much less control. Not to say you have no control, but some of these things are beyond what we can influence. That said, you can do things to put yourself in as best a situation as possible to maximize your probability of success with these less controllable variables.

Variable 1: How long you live.

It a morbid thought, but it's a practical influencer when pertaining to your finances. I always joke, "If you want to retire at 55 and only live until 56, my job becomes really easy." If, however, you retire at 55 and live until 90, it's a different story all together.

Think what added stress every year you live longer has on your investments. It's another year of spending on your needs. It's just another year of unplanned variables.

I'm not suggesting we build into your financial plan to pass away earlier. However, I find most people don't give enough thought to actually how long their retirement is likely to last. Think about it. Most of us are start working around 22/23 years old. The average retirement age in America is currently right around 62 years of age. The average life expectancy is around 79 years old (81 for women and 76 for men). This means (on average) we have 40 years of working and savings to subsidize about 20 years of retirement.

But wait there's more! If you are currently 65 years old, your life expectancy probability shoots way up. For men, if you are currently 65 there is a 63% chance you live into your 80's and 22% chance you live into your 90's. For women, those same data points yield a 73% chance of living into your 80's and 34% chance of your 90's. Here is where it gets really interesting, if you are married and both age 65 there is a 90% chance of living into your 80's and just under 50% chance (49% to be exact) of living into your 90's.

This means if you are fairly healthy into retirement, you certainly can't plan on your money lasting only 20 years. Rather you have to plan for at least a 30 year retirement. Also be cognizant that one of the fastest growing demographics in the country is centennials!

It's important to note you may not be able to fully control how long retirement will be, but knowing your family history, statistics, and the kind of retirement lifestyle you want to have will help position you for financial freedom.

Variable 2: Impacts of health in retirement.

Now that I've established the importance of understanding life expectancy on retirement plans, I'll turn my attention to the quality of that retirement. Medical expenses, coupled with the level of our health, has a dramatic impact on retirement plans.

The average cost of health insurance (Medicare) premiums in retirement is staggering. Current estimates (according to Fidelity and Healthview Services) show a 65-year-old couple retiring today can expect to spend approximately $250,000 on health care premiums alone. If you retire before Medicare eligibility (age 65) these costs go way up as private insurance is typically much more expensive. Add onto that additional out of pocket expenses. You'll realize real quick the impact these costs have on your golden years.

If the costs for a normal, healthy retiree couple is that staggeringly high, imagine what happens to your total health care costs in retirement if one or both individuals have substantial health issues? Needless to say it will cost a pretty penny; it will likely drain retirement assets and burdent your lifestyle.

Further down this rabbit hole is long term care expenses, which are not covered by traditional health insurances. The median annual cost of nursing home care in most of the country is over $75,000-$100,000+. Statistically, you have a 55% chance if male and 72% chance if female of needing some form of long term care assistance if age 75 at some point in your life.

None of us know what the future will hold. Sadly how we age also isn't under our control. Taking steps to live a healthier active lifestyle will not only impact your quality of life, but also can make a big difference in the cost of your retirement.

Variable 3: Risk or growth on investments.

For the final variable, let's turn our attention to that nest egg. More specifically the rate at which that nest egg grows.

What we can do is A) position ourselves appropriately and B) understand the potential ramifications of our actions.

If your assets are sitting in a bank earning 1% or invested in the markets earning 6%, 7%, or 8%, there is a big difference on how long those assets will last. For starters inflation will impact you quite a bit . According to inflationdata.com, the average annual inflation rate in our country (over the past 100 plus years) is approximately around 3.22%. This means you'll need to earn more than that just to keep up with cost of living.

There is a substantial difference between what you can afford and how long your money will last in retirement based on the rate of return of your nest egg. In simple math, a two million dollar portfolio earning 6% annualized would grow $120,000. That same portfolio earning 3% annualized would grow to $60,000 or exactly half. Now it's important to think of this in two stages. Stage one is the impact a higher return leading up to retirement. Stage two is the impact a higher return will have during retirement.

That said, we certainly can do things to position ourselves appropriately.

1. Understand risk historically leads to greater returns. However, it will be a bumpier ride.
2. Having a well-diversified portfolio will go a long way in mitigating some risk. It will also help smooth out the return highs and low.
3. Remove emotions from your investment portfolio.
4. Work with a professional to help balance risk and return (managing your investments to coincide with your goals is our lifeblood.)
5. Make sure you understand the needs of your investments and the risk you are willing to take to achieve those desires.

The effect risk and returns has on one's financial health can be astonishing. It certainly is an important lever, as it will help you make decisions about your future. In addition, higher returns can mask some other deficiencies in many cases. The question you must ask is what combination of risk and reward (in conjunction with all other levers we've discussed) work for you? Once you grasp that, you can then begin to make sure you are comfortable doing what it takes to position yourself best to achieve those desired outcomes.

The unknown

The entire essence of this final lever is that it comes with a greater amount of uncertainty. With uncertainty comes lack of control. As professionals dealing in the art of these unknowns we do our best to educate, discuss, and implement strategies to optimize these variables. We do this all while understanding the ramifications of our actions and potential outcomes. Remember man plans and God laughs!

We welcome the opportunity to speak with you. If you have any questions about anything you read in this eBook or general questions about financial planning and wealth management, please don't hesitate to contact one of the partners.

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