

First Class or Coach

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Will You Retire First Class or Coach?

Over the last twenty-plus years, I have spent time teaching individuals and business owners about the psychology of investing money. Throughout this process I have always been amazed at how most investors don't know what they want. Let me explain a little more. Most individuals don't have a goal for what they want in life and therefore are willing to take whatever they get. Having grown up in and around a depression influenced family, (my grandfather worked during the depression and my father was a child during the depression) they felt it necessary to have me experience this event through their stories. More than once my father related to me how he had to walk to school three miles everyday - up hill both ways. And to top it off his shoes had holes in them. Is there any wonder why that generation is so focused on the safety of money not to mention worried about what will happen if they run short? As a result of this experience, I have come to the conclusion that many people are willing to accept a "coach" lifestyle because they don't think they have enough money to go "first class" nor do they invest their money in such a way as to get a first class lifestyle. While there is no problem with living this lifestyle if that is your goal, to live this lifestyle because you fail to plan or because of fear is wrong.

Often people will say to me "I don't need or want that type of lifestyle. I'm comfortable with the way I live now. Besides what if something happens and I need the money for healthcare or my children need it." My response is simply "nothing ventured, nothing gained." Growing wealth and having money should be purpose-driven to improve your lifestyle; it is not to say you have money. How you define lifestyle is up to you. It may encompass travel, security, gifting to children, long-term healthcare or any other issue you want. You simply must decide what that lifestyle is for you and make the necessary decisions to fulfill that objective.

Money needs to be in motion in order for the economy to work and to make more of it. Money is not evil - what people do with money can be evil. As the saying goes, "Money makes you more of what you are." If you are greedy, it makes you greedier and if you are charitable, it makes you more charitable. So, in order to acquire a first class approach to life you must decide what you want from money and then go and accomplish it.

Deciding between First Class or Coach

Is your preference to retire first class or coach? In answering this question you must decide what the two mean to you. Would you like to live in two locations to have the ideal weather and balanced lifestyle that is offered? Would you like to have a home near each of your children and grandchildren? Live in the Caribbean? The heart of the matter is that whatever you define as a first class retirement should be your goal.

Considerations for Retirement

Are we happy with just enough money to get by in retirement? Why not take the approach that you can have it all if that is your desire. The key to having the lifestyle you want is to first decide that it is okay to have it. I have found the number one challenge in most people's lives is the belief system they have developed and affirmed over the years. In many cases, they look at having money as a bad thing. This is simply not true.

It is time for each of us to decide and plan for what we really want to do and have during retirement! The key is having a goal and a plan you can implement in order to accomplish what

you want. For instance, plan to retire on twice as much as you need! Most people define their retirement goal based on what they need. This will be the first time in their lives they have lived based on need versus want. The vast majority of Americans have an above average level of materialism that plays a role in their spending. Even the most frugal have their moments of weakness. Therefore, take whatever you think you “need” in retirement and double it. This will make sure you are comfortable.

Keys to a Successful Retirement

- Start early! With improvements in medicine and longevity, you may spend 30 years or more of your adult life retired. You don't want to have that much time and not enough money to enjoy it.
- Don't count on an employer or the government to help you out. This one is up to you. Social Insecurity may not be there at the current rate the government is spending money. Your 401k plan, or a retirement plan like it, may be your only hope. What you put in it is what will be there when you get there. The key will be to manage the money in such a way as to give you the income you need times two.
- Take responsibility of more of your income. If you take this approach you will accumulate enough for a comfortable retirement. Remember if you have too much you can always give it away. This is more fun than going grocery shopping with a calculator and coupons or having to always go to the early bird special.
- Protect yourself from inflation. This is always something we hear from financial planners. The reality is inflation will impact the day to day lifestyle of retirement but as long as you are managing your money in a manner appropriate for your income needs, it should not be the burden most expect. Planning, and executing the plan, generally always eliminates potential problems.
- Keep investment returns realistic. This is a tough thing to do when you look at historical rates of returns in the investment world. Individual securities, mutual funds, real estate, and the like all have shown solid returns over time, but they do come with risk. Thus, keep in mind what is realistic over time and do not expect to get rich over night. Just because you have decided to invest does not mean the markets come without risk. Just ask folks planning to retire at the end of 2002 who remained fully invested aggressive investors for the three years prior. Thus, the importance of money management. From my perspective money management is more important than performance. Without money management you may not have any money left to perform.
- Educate yourself about money. Knowledge is power. It always has been. This is a must in order to accomplish your objectives. Baby boomers face a different hurdle than their parents. The 30 year career with one company and a pension plan their parents likely enjoyed has turned into the 401k plan for them. The tax structure for retirement will be different. How we spend our money in retirement will be different. Educating yourself on these issues is vital.

As an illustration of the importance of education, a recent survey of investors showed the following results:

- Only 36% could name the investment that had the highest return
- 40% picked CD's and bonds as having the highest returns

- 50% believe stock investments will get wiped out in their lifetime
- 75% believe buying a house is the greatest way to save for retirement. Yet, economists say real estate will struggle to keep up with inflation, taxes and maintenance over a 30 year period – not to mention where will you live?
- Over a rolling 20 year period, 100% of time the stock market has made money.

Baby boomers make up about 78 million people. What happens as they hit retirement age? It's like a rat going through the snake. According to the U.S. Census Bureau, approximately 7,918 Baby Boomers turned 60 each day in 2006. That is an average of 330 per hour and a total of nearly 2.9 million for the calendar year. They will have an impact on healthcare, housing, travel, shopping habits and so forth. The simple conclusion is most retirees will end up with less than half of the money he or she will need for a comfortable or first class retirement. What is the point here? Simple – first decide what you want. Second, develop a plan to attain your desire. Third, acquire the knowledge on how to obtain it through investing your money. Finally, develop or acquire a strategy to attain the objective along with the discipline necessary to monitor your goals over your lifetime. Ask yourself the following questions:

- Do you want to go first class into retirement or coach?
- Will you have enough money to retire comfortable?
- Where will the money come from?
- Why do we fear retirement planning?

“If you haven't got time to do it right, when will you have time to do it over?”

3 Myths about Retirement Planning

1. Inflation will be your biggest enemy. I have found one thing to be true when I plan how to defeat my enemy – I generally win. Thus, the key is planning which is something most of don't really like. If there is inflation, generally interest rates rise with it. If we take advantage of these higher rates we can offset the damage of inflation with regard to our lifestyle. Although you need to monitor changes in cost of living, there are some areas where the impact is less likely. What if you own your home with no mortgage? The Consumer Price Index (CPI) won't affect you at that level because you have no increase in housing costs. You can make the necessary adjustments to account for any property tax increases by planning.
2. Expenses will not change during retirement. Consider the myth carefully because experience with people retiring over the years shows you spend more time playing than working and therefore need to make adjustments.
3. You can never touch your principal. Why not? You will never see a U-haul behind a hearse! Proper planning allows you to attack this issue head on. There are more ways to address this subject than we could possibly explain in this format. The key is to take the time to educate yourself about the various options available and which ones would work for your specific situation. One method I have seen done very effectively is to spend assets during the early years of retirement when you are younger. Then slow spending in the latter years when your body slows down and you can't do as much. The key is to be creative in your approach to how you live your retirement years and spend your money. How we spend our assets over the course of our lifetime is a plan – without one you will never know the answer.

Tactics and strategies for investing for retirement

Use pre-tax investments to maximize accumulation of assets. You need to be aware of the fact that too much of a good thing can be bad. If you have all your money accumulated in this type of vehicle it will make retirement more painful than you want from a tax viewpoint. Therefore, use these vehicles to invest but diversify the tax liability of money. You should use after tax vehicles as well. This allows you flexibility in retirement with regards to how you spend your money and how much of your money you will send to Washington.

One of the greatest lies in America is that people are told when they retire that they will retire into a lower tax bracket. How is this possible? The only way we can find is to earn less money. Unless you have non-taxable income or assets this will be difficult. We have found most retired people need more money to retire on because they have more time to spend it. Lifestyle is the key element to plan for in retirement. You must implement a plan to be in a lower tax bracket and you can potentially accomplish it. This takes tax diversification! If you have all of your money in one type of taxable account you will potentially pay more in taxes.

IRA's and pre-tax accounts need planning:

- Be aware of the 59 ½ rule and the 10% penalty. There are ways to deal with this contingency, but planning along with understanding IRS rules is essential.
- 70 ½ rule – mandatory required minimum distributions (RMDs) from the account. Too often we see people deferring the distribution as long as possible to avoid the tax. The challenge with this is you could end up paying more in tax by making this deferral. Planning for the distribution of an IRA account is vital! Why give the government 50, 60 or 70% of the asset you accumulated. PLAN!
- Deal with your IRA account over your lifetime – not at the end. This should be done for the simple reason that you can control the tax situation now – at death the government will control the taxes!
- Plan for any inheritance taxes associated with an IRA. This is a complex issue and needs to be addressed in your lifespan. Remember the government's way of dealing with taxes is to take as much as possible.
- Plan for your financial future. Tax laws change on a regular basis and therefore planning now as well as in the future is necessary to maximize the asset.

Using Tax-deferred annuities requires planning:

What about the long term impact of the tax savings associated with these instruments? These tax-deferred vehicles can be good if used properly and for the purpose for which they were designed. Annuities are designed to give you income – not to avoid taxes. While they do avoid taxes on the accumulated growth, they may become a tax bomb in the future. Whether you are using variable annuities, fixed annuities or the latest complex craze – equity index annuities, you must educate yourself on the pros and cons of these instruments. They are typically considered long-term vehicles and have a variety of issues associated with them depending on the type. A partial list of areas to research intensively is as follows:

- What are the accumulation/distribution benefits and negatives of using this type of instrument?
- This is a long-term investment. Is that my objective?

- What are the fees and surrender charges associated with such a vehicle? Can I achieve the same goal with a less expensive product?
- What is the method of receiving a return on my investment? Do I understand the investment selections, interest crediting procedures, or index formulas that are available and do I have the expertise to manage the process?
- What is my risk in owning this product? Investment risk, interest rate risk, risk of tax law change, issuer default?

In addition to annuities, some additional benefits can be found in owning cash value life insurance as an alternative since it also has tax deferral. The point is that there are many instruments under this category and you must be careful to understand your situation and the potential solution (product) completely before you purchase or invest.

Conclusion

As you can see, the key to retirement is to “plan, plan, plan” and then regularly monitor and review your plan! While it is up to you whether you go into retirement first class or coach – both need planning. A lack of planning will mean never getting on the plane. Thus, you won’t have a seat in first class or coach and may be loading the baggage.

Deciding what you want is the first step in the process of planning. This does not mean it will not change over time, but if you plan your entire life around a coach retirement it’s hard to upgrade to first class at the last minute. Unlike airlines, there is not a frequent flyer program that allows you to save miles and use them for retirement – inheritance is the only thing close and we do not find too many people who get windfalls at the last minute.

Retirement planning is retirement planning. Make sure that you don’t let other people complicate the process for you to the point that you throw up your hands in disgust. Someone else’s view of coach maybe your view of first class – and in planning your retirement – your view is the only one that matters!