Financial *focus*

ACP Alliance of Comprehensive Planners

SUMMER 2021

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Are You Saving **Too Much?**

By Andrew Langdon, CFP®, EA, MBA
Peachtree City, GA

You've been advised to save, save, save for as long as you can remember, and you've done a great job of saving diligently thus far. But now someone (me) comes along and questions if you are saving too much? How is this possible, when Fidelity recommends having at least 10 times your annual salary saved by age 67, knowing your salaries will continue to increase and this 10x rule will continue to elude you?

Many people tend to think of being wealthy and having a lot of money as one and the same. But what is the purpose or reason for accumulating a bunch of money? Being wealthy, as termed by Brian Portnoy in his book *The Geometry of Wealth*, is funded contentment. Essentially you are wealthy when you have the means to live your ideal lifestyle and be content in your endeavors. This is where the savings rules of thumb should be taken lightly. Someone who anticipates cruising around the world (post-Covid, of course) for eight months out of the year will certainly need a larger nest egg than someone who wishes to simply maintain their current lifestyle, with a paid-for house and self-sufficient children, and who would like to take 2–3 trips per year.

To illustrate, let's use this back-of-the-napkin-type example. A dual-income couple, Jack & Jane, is expecting to retire next year at age 67. They each make and have averaged $50,000/year in income, or $100,000 combined. According to Fidelity, they should aim for roughly $1M in retirement savings, but currently they are far short with just $500,000 in savings. They're doomed right? Not quite. Jack and Jane were very disciplined in their finances and while they did not save according to industry recommendations, they still saved diligently. They also lived within their means and did not accrue debt, allowing them to pay off their home. Their children have graduated college and are living on their own. Jack and Jane can live comfortably on $5,000 per month, which includes increased travel and time with their future grandkids.

How much will Jack and Jane need from their investments to support their lifestyle? According to AARP, with their average earnings they will each receive about $1,850 in monthly income from Social Security at full retirement age (after tax, assuming a 12% effective tax rate), or $3,700. This leaves them $1,300 short. Traditionally, a 4% withdrawal rate has been sufficient in sustaining a retirement portfolio (though this has been challenged in the past), and so only needing an additional $1,300 per month from their $500,000 portfolio puts their withdrawal rate at 3.12%, much less than the standard 4% which only enhances their portfolio sustainability. So even with 50% of the "recommended" retirement balance, Jack and Jane will be able to retire and be wealthy.

Of course, there are a multitude of arguments which could be made here. Some financial planners assume expenses remain the same in retirement and tend to increase every year due to medical expenses, and are subject to annual inflation. Others feel that expenses in retirement plateau after about five years, then drop precipitously, though still accounting for inflation. For those who are younger, you may not believe Social Security will be around when you retire, or that muted equity returns will require higher retirement balances. This example is not meant to be a substitute for a retirement cash flow projection, but rather the example above shows that your savings rate should not be compared to your peers. The amount you save, how you save, and your lifestyle are unique to you and your goals.

How Do I Know If I Am Saving Too Much?

Much like the Lewis Carrol quote "If you don't know where you're going, any road will get you there", the first step in determining if you are saving too much or too little is to understand what you are trying to achieve—both pre-retirement and in retirement. What are you working for? Take some time to determine your goals, and be sure if you are in a relationship, both of your goals are stated. Just like you need to know your destination before heading out on a road trip, try to make financial decisions within the context of achieving your goals. Once you understand where you are headed, then you can begin to plan and fund your unique goals.

The purpose of this article is not to discourage saving, but to prevent people from sacrificing too much today for something they may not need in the future. I've had conversations with people who are essentially bypassing enjoyment and time with their families for the sake of saving for a "goal" they have not even identified yet. Yes, saving is extremely important. But if by saving too much you limit your ability to share experiences with your kids and family, have you really accomplished your goal?

Understanding Cryptocurrency

By Cortney Giles, CFP®, EA, CRPC
Chandler, AZ

It's hard to scan the financial headlines these days and not spot at least one call to action related to Bitcoin's latest moves. Has all the attention given you cryptocurrency fever, or are you at least wondering what it's all about? Before you start loading up on any form of cryptocurrency, let's take a closer look at what you may be getting yourself into, in three parts:

1. Understanding cryptocurrency.
2. Spending cryptocurrency.
3. Trading in cryptocurrency.

Our quick take is that cryptocurrency is an interesting development with a number of promising possibilities. Human ingenuity is always a marvel to behold. But like any relatively new, highly volatile pursuit, it entails considerable risk. Make sure you have a full understanding before you invest or use cryptocurrency. In our opinion, cryptocurrency remains more of a speculative venture than a disciplined investment. With that, let's proceed!

Beginning with Bitcoin

Cryptocurrency was introduced in 2009 by a pseudonymous Satoshi Nakamoto. Nakamoto described a new kind of money, or currency, which was meant to exist in a secure, stable, and limited supply strengthened by electronic security, or encryption. Pair "oencryption" or merely "encryption" with "currency," and you've got cryptocurrency.

Bitcoin became the first cryptocurrency and is still the most familiar kind. According to CoinMarketCap, Bitcoin had a market cap of nearly $600 billion as of January 22, 2021, with its closest competitor Ethereum at $140 billion. Market caps drop considerably after that, but there are plenty of others—up to 6,000 according to the CFA Institute's Cryptoassets Guide.

Unlike a dollar bill, cryptocurrency only exists as computer code. You can't touch it or feel it. You can't flip it, heads or tails. But increasingly, holders are spending cryptocurrency in ways that emulate "regular" money (although limitations remain)—and potentially even adding to its uses. There's also growing interest in trying to build or at least preserve wealth by trading in cryptocurrency, which some curiously describe as being like "digital gold."

Cryptocurrency vs. "Regular" Money

In comparing cryptocurrency to regulated fiat currency—or most countries' legal tender—there are at least two components to consider: limiting supply and maintaining spending power.

- Limiting Supply: Obviously, if a currency "grew on trees" it would cease to have any value to anyone. That's why central banks like the US Federal Reserve, Bank of Canada, and Bank of England are tasked with limiting their currency's supply, without strangling its demand. For Bitcoin, supply is limited to a maximum of 21 million coins. While cryptocurrency proponents offer explanations for how supply and demand will be managed, some systems will undoubtedly be more effective than others at sustaining this delicate balance, especially when exuberance—or panic-driven runs—might outpace reason.

- Maintaining Spending Power: Neither fiat currency nor cryptocurrency are still directly connected to the value of an underlying commodity like gold or silver. Thus, both must have another way to maintain their value, or spending power, in the face of inflation. In most countries, the nation's central bank is in charge of keeping its fiat currency's spending power relatively stable; only the government can add or subtract from its supply of legal tender. For cryptocurrency, there is no central bank, or any other centralized repository or regulator. Stability is instead backed by its underlying blockchain.

What is a Blockchain?

Using bitcoin to illustrate, a block is essentially a bitcoin transaction waiting to be settled. Think of it as being like a written but uncashed check; it's not real money until the transaction is verified and added to a permanent ledger.

Except there is no bank to complete the transaction. Instead, bitcoin "miners" compete against one another for the role. Each block is secured with a complex mathematical equation. The first miner to solve the equation gets to add the new block to a blockchain. The winning miner is then rewarded handsomely for their effort. They are paid with bitcoin, which can currently be valued at tens of thousands of dollars for settling a single block.

The CFA Institute's Cryptoassets Guide describes cryptocurrency security as follows:

"This is the real breakthrough of blockchains: creating timely, bad-actor-proof consensus across all copies of a decentralized and distributed database…Today, more than 40,000 computers are independently verifying every single bitcoin transaction."

In other words, blockchains create a strong, yet globally decentralized check-and-balance system. The competition among thousands of miners keeps everyone relatively honest, as any attempted "cheating" by cryptocurrency holders or miners should be promptly detected.

We hope this was the beginning of understanding the complex nature of cryptocurrency. In future issues, we will address both spending and trading in cryptocurrency.

Soft-Sided Tips for Successful Retirement Planning

By Mary Alpers, CFP®, EA, MBA

Colorado Springs, CO

Comprehensive financial planning incorporates strategic financial analysis and quality of life into retirement planning meetings. Couples and singles can explore the softer and more emotional side of retirement by setting goals and exercising thoughtful introspection towards personal views of retirement. "Are You Emotionally Ready to Retire? Eight Questions to Ask Yourself", a recent article in the *Wall Street Journal* by Maryanne Vandervelde, discusses the emotional side of retirement planning and covers differences between typical professional women's and professional men's views of retirement. The article stresses the importance of clear communication when making retirement decisions.

Retirement is not a vacation. It is a permanent change in lifestyle. It may be optional or forced, gradual, such as scaling down work intensity, or a sudden event. It may begin with happy circumstances of "health is wealth" or with existing health challenges. No matter the circumstances, good communication and forethought is key.

One significant quality of life decision with an emotional component is where to live. As I write I am lounging by a pool in the tropics. Really. We are on a tropical beach with palm trees, iguanas, and 85-degree breezes. This may be a permanent dream for some, and with snow covering our home in early May, it is appealing. But as a daily retirement goal? Not so fast.

Experiencing the "dream" vacation daily may leave some with a sense of "where do I go for a vacation?" Some retirees split their time between two locations. While this may be a good idea, you and your significant other should consider when to change locations, how long to spend at each location, what to take or leave, and how to maintain roots where you most consider home. This lifestyle can be burdensome for some who do not realize the impact of family, friends, and familiarity of being in one location.

Adjusting to a retirement lifestyle is another emotional component of retirement. The decision to retire requires understanding your finances, but emotional and practical preparedness is key to successfully transitioning from working for a living, to living off assets. Retiring can be most challenging to those who identify with and enjoy their careers, particularly entrepreneurs. Easing into retirement smooths this transition. Recently retired clients shared their views of retirement, ranging from being "good but not what I expected" to "it's been more of an adjustment than expected" and "I can't believe my days are so full and why didn't I do this earlier."

Ideally couples should explore retirement goals individually and then together. The *WSJ* article suggests using a life planning coach to help clients define values, goals, and gain a realistic emotional evaluation towards retirement. Members of the Alliance of Comprehensive Planners incorporate exercises and evaluations along with hard numbers and projections into retirement planning. If someone is not quite ready for retirement, they may decide to work another year or two to make the financial and emotional difference needed to enjoy those freedom days. Others are more than ready to retire, both financially and emotionally.

For working couples, the *WSJ* author suggests the man retire first (or I would clarify whoever has worked more years) to adjust to days without tight, structured schedules. The woman, or later career starters (possibly due to taking time off for family or a career change) may not be quite ready for retirement, while the one who worked longer is winding down a career. Female baby boomers also tend to outlive men. Health can also determine who will retire first. "The Pleasure of Phasing into Retirement", an article by Bruce Horowitz, also in the *WSJ*, advises newly retirees to schedule their days and understand personal energy levels at different times of the day to achieve a desired sense of accomplishment during retirement.

Socially, some new retirees find work "friendships" end with their careers. Interestingly, more men claim their wives are their best friends than women claim of their husbands by a significant margin for current retirees (typically somewhere in their 60s.) Vandervelde recommends respecting this and encourages each to seek individual friendships. Data shows that it is not as common as believed for one couple to view another couple as their closest friends.

Studies also show that retirees who "give back" through volunteering, teaching, and offering their expertise are normally more satisfied in retirement.

Finally, we encourage clients to be true to themselves. Understand that one person's view of retirement may include adventure while another's preference is spending more time with children and grandchildren. Now is the time for honest discussions.

Cultivating Simplicity

By Michael Garber, CFP®
San Jose, CA

Because we are often consumed with the busyness of daily life, most of us give little thought to the bigger questions of where we are going in life and how we will get there. We let others around us set our goals for us because that is how life starts out in childhood. With the coming of adulthood, we are supposedly prepared to know what we want and to think for ourselves about how we will obtain it. However, human nature complicates this in various ways.

For most of us, our lives go through predictable stages. We all need food, shelter, and clothing. Living in a developed society, it is necessary to become educated in a specialized skill while we learn about the broader world and its context. We do what are supposed to do. There is also the element of risk. Bad things happen, so there is the tension of living for today vs. living for some unknown future. Our time is limited. Despite it all, we yearn to make something more of life. We are caught up in the business of life, with the idea of earning, having, and achieving, and we begin to look for shortcuts to success.

It is this impulse that can make a person look for clever solutions to things like weight loss or investment returns, fad diets, and complex multi-factor theoretical models. It can ultimately lead to fraud and disaster. Thankfully, most of us can resist those wrong turns, though we might still search for shortcuts. We listen attentively to those who tell us there is a better, easier way. Sometimes, there are better ways. More often, the right path is often simplest, yet not the easiest. Diet, exercise, and saving are never popular, but they always work.

We can become confused about what we want or need because we listen too much to those around us. How do we cut through the clutter of life to focus on what we really want, what is most important, and the best way to get it?

Simplicity. Simplicity may not be the easy way to live, but you can be more happy, more focused, and waste less energy.

Here are some ways to simplify life:

- Set goals for a shorter time period (e.g., a week instead of a year). Keep the long-term goals but simplify them by paying the most attention to the next step. Break big goals into smaller, more manageable goals.

- Set fewer goals. Limit yourself to work on a few at a time, no more than six.

- When you are working, work on one thing at a time.

- Have a written plan. Write things down, whether it is on paper or your phone. This is equally true of a grocery list as well as your life plans. If your plan is written, you can check it and change it. If it is only in your mind, you can avoid thinking about it, or doing anything about it. Plans change, and when they do, next steps change.

- Cut down on screen time. This may seem impossible. If so, consider taking a block of time off each week. Call it a "digital fast." That includes social media and old-fashioned TV.

- Pay bills and make savings deposits automatically wherever possible. Limit the number of accounts you use to pay bills. Make a single annual payment instead of monthly payments.

- Own fewer investments and have fewer accounts. Just make sure they are the right ones for you.

- Say "no" whenever possible. Make choices to slow down. It is not always possible, but it will never happen unless we ask the question, "do I really need to do this? What is it leading me to?"

- Consider your circle of influence—the things you can actually control—vs. your circle of concern. Everyone is concerned about big events outside our control (think COVID-19). While there are some things we can do (wash hands, wear masks, social distance) whether any one of us ultimately gets sick is largely beyond our complete control.

- Declutter or downsize. Ask yourself: would I buy this again? Would I keep it if I were moving to a new place?

At first, knowing what goals to choose will be hard for most people. It is an iterative process. We must begin with teaching ourselves to listen to the world around us. Only then can we start thinking accurately about what we want for ourselves.

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