Decades & Decisions: Financial Planning at Any Age

Joseph C. Conroy, CFP®

To my wife Jane and sons Blake and Grayson.

Acknowledgements

Thank you to those who have helped provide the material for this book: my clients. Thank you for the trust you have placed in me and confidence to help you throughout all of your financial decisions in life. The experiences shared with these amazing people have allowed me to fill these pages and hopefully help many others.

Thank you to my editor Bob Graham of Mason-West Publishing House. This book has been an idea I have floated around for years and Bob has been there to help every step of the way. He has challenged me, guided me and I believe extracted the best version of this book possible.

I would also like to thank several people who have helped in a large way with the writing, editing and creation of this book: Thank you to Barbra Koehnlein, Patricia Madach, James Salamone and Nicholas Conroy.

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About the Author

Joseph Conroy is a CERTIFIED FINANCIAL PLANNER™ professional and independent financial advisor. His articles on financial planning have been printed in various publications. He manages his independent financial planning and investment management practice near Baltimore, Maryland, and has clients all over the United States, including California, Texas and New York.

Joe takes great pride in putting his clients' best interests above all else. He works with clients in nearly all aspects of their financial lives, including investments, retirement planning, education savings, estate planning and insurance.

His passion is working closely with families, offering advice and guidance that enables them to improve their financial lives and work toward their goals.

He believes the best first step toward financial improvement starts with education. Through education people can better understand why they make certain decisions with their finances. Then the process of understanding how to improve your finances can begin.

When he isn't working, Joe likes to spend time with his wife and sons. He also enjoys going to car shows, cooking and traveling.

Introduction

Money and personal finances are complicated and complex. But they don't have to be.

This book will explore the important financial topics, telling you what you need to know to help improve your financial situation.

We will take the complicated and complex and make it simple and easy.

After reading this book you should have a better understanding of how money works and how to improve your own situation.

Just as important as how things work, we will explore why investors make the decisions they do. Understanding the behavior behind financial decisions can go a long way to improving your finances and cutting down on costly mistakes.

As an independent financial advisor and CERTIFIED FINANCIAL PLANNER™ professional, I have worked with hundreds of individuals and families of all ages, education levels and financial positions.

My passion has been helping to improve the lives of people through financial planning and education. This book, in addition to educating people on various topics, features many stories of real-world people just like you.

I will share the many successes and failures I have seen people experience with their money. The failures are probably the most important to pay attention to because they will give you the opportunity to learn from others' mistakes. Learning from others is far more cost-effective than learning from your own money mistakes.

My experience helping people over the years has boiled down to a core group of universal lessons that everyone can benefit from learning. Whether you are just starting out in life, behind on your savings goals, or have plenty of money and want to make the most of it, this book is for you.

How to use this book

Here are a few tips for how to make the most of the information contained in this powerful and effective guide to finances at any age.

While everyone's financial situation is unique, investors all begin to fit into certain categories usually marked by ages. For example, people in their 20s might be concerned with student debt, while people in their 60s might be focused on retirement.

I have grouped each decade of one's life into separate chapters. In the beginning of the chapter, you will find outlined the different subjects to be covered.

You are not meant to read this book from start to finish.

Rather, this book is best read by jumping around to the different decades and assorted topics within each chapter. Find something of interest and read that topic. I promise you will not get lost going out of turn.

Find your place

If you are just starting to invest and in your 40s, then the earlier chapters will help you get caught up. If you are a seasoned investor and primarily focused on retirement, you may want to start with the 50s and 60s.

Each chapter will have something that should benefit all investors.

We will cover the following topics and more:

- Retirement Planning
- Investing
- Insurance and Estate Planning
- College Education Funding
- Taxes

- Debt Management
- Budgeting

This book will break down each of these topics and explain things in real and actionable terms. We will cut through the financial industry jargon and clearly articulate what you need to know to help improve your situation.

I truly appreciate the opportunity to present common-sense financial planning to you. I hope you will enjoy and implement the lessons learned to benefit yourself and those around you.

April 2018

Your 20s

Goals for this decade:

- Network like you are looking for a job, always.
- Find a job that fits you best.
- Build a workable budget that is easy to maintain.
- Begin saving and investing.
- Start your get out of debt plan.

Whether you are in your 20s or someone who takes pride in reading this book from front to back, each chapter has important information. For the over 20s group, this chapter may elicit a lot of should haves and could haves. No problem. We live and we learn.

For you readers in your 20s, sections here may sound like what your parents or others have been telling you. Perhaps you have overlooked that the frequency of these messages may be a sign that they are worth more consideration. The old saying is that wisdom is lost on youth.

But let me give you one more reason to read on: I wish I had paid attention to these ideas when I was in my 20s. I also hear from clients all the time that they wish they had done these things in their 20s.

No second chances

So if the following information sounds like an older person telling you what to do, consider these the words of an older person who wishes he could go back and take more of this advice.

You are probably eager and excited to take on the world. You are ready to grab life by the horns and make your mark. You are going to make a difference.

If you're like many people in your 20s, however, you may have underwhelming job prospects, possibly serious, or even crippling school debt, and no clue how personal finances work.

Now is the time to get a handle on all three. The sooner you understand and acknowledge these realities, the sooner you can start the journey to building wealth.

Graduation is only the beginning

I am going to gear this section to people who have graduated from college because they often face the biggest struggles. The information contained in this chapter can apply to anyone in his or her 20s. Perhaps you couldn't afford college and you have a job. No problem: this information can still help you.

Perhaps going to college is in your future. This information may color that choice and better prepare you to address the realities of that decision, whenever you choose it.

We will go through the major financial topics I find people struggle with in their 20s. Finding the right job, learning how to maintain a budget and starting to save your money are among the most important things you can do to help improve your future financial situation.

Priming the pump

At this stage of your financial life, the questions are not usually about how to invest your millions. Rather the questions are how to get started on the path to accumulate millions.

This decade in people's financial life will have the largest impact on the future trajectory of their financial situation. Knowing what to do and why to do it may pay handsomely down the road.

You can wait until you are older and play catch up later in life or take the easy path by starting early. Starting earlier can make it easier to create a successful financial future.

So let's get started.

Network and find a job

Assuming you graduated from college, which more and more people in their 20s are doing, it's time to find a job. Whether you are a Liberal Arts major or earn a degree in Engineering, finding a job can be challenging in today's economy. Actually, this reality is true in any economy.

Let me tell you the story about a client of mine. John graduated from a college with a Business Management degree. After graduation he went to work on updating his resume and perusing jobs on Monster.com, Craigslist, and other popular job sites. Like most graduates, he was proud of his college accomplishments and his 3.2 GPA. He was mildly involved in extracurricular activities at his large school, which has a big alumni network.

His father, also a client, was a successful businessman who knew many other successful business women and men. With the father's connections, you would expect he would have no trouble finding a job, right? Did John tap his father's Rolodex? (If you really are in your 20s, ask Siri or Alexa what a Rolodex is.) No, he did not. And why not? The answer is simple and not that surprising—pride.

Looking for work

You see, John did not want to go the easy and profitable route by having his father assist in making connections and finding his place of employment. Instead, John wanted to forge his own path. His parents had always helped him do things and now John wanted to prove to everyone that he could find a good job on his own. More importantly, he needed to prove to himself that he could find a good job on his own.

John woke up every morning and hit the Internet hard. He sent out a dozen resumes a day. He received zero calls in return. "How could this be?" he asked himself. "I graduated from a big, well-known college with a practical degree and a good GPA. It must be the economy."

This lesson is number one about finances and life in general: you don't get bonus points for making things in your life more difficult than they need to be; you actually lose—time, energy, possibilities.

When looking for a job and jumpstarting your career, use any and all advantages available to you. The right start to a career doesn't always lead to a prosperous future, but it sure helps.

Explore all the opportunities available to you for your career. More opportunities in your career will likely lead to more opportunities to grow your financial assets.

Using your connections

Use existing connections and form new ones to find your path to financial success.

What should John have done instead of attempting to blaze his own trail? He should have talked to every person with whom his father could connect him. He also should have talked to everyone he could have connected with outside of his father's network—from his professors to his classmates, to guest speakers, and anyone else with whom he came in contact. He should have started a lifelong, never-ending habit of building a personal network of people.

If you get nothing else out of this chapter, this lesson can improve your life by several multiples: always network like you are looking for a job, even if you are happily employed.

Let's have lunch

Get out and have lunch with as many professionals in as many fields as you can find. Once you do find a job, force yourself to continue this habit and maintain a large network of people who are your fans. This deep network will help you uncover opportunities and advance your personal goals, whatever they are, much more effectively and efficiently than trying to do it on your own. If it takes a village to raise a child, then it takes a city to develop you into the next big thing or medium thing or whatever you want to be.

Now you realize how important it is to talk to the people close to you—friends, parents, siblings, church acquaintances, anyone who will take your phone call, email, LinkedIn contact request or offer for coffee.

These discussions can start easily. Begin by asking for help. Everyone but a jerk is willing to help. So I guess don't call jerks because they won't be of help to you anyway.

The phone can be your friend

Here's what that phone call should sound like:

"Hi, this is John. How are you (childhood neighbor who is a manager at a local business you are interested in)? As you may have heard I recently graduated from Whatever College and I was wondering if you would be available to grab coffee sometime that is convenient for you? I would love to hear about what you do and any career advice you could offer me."

You didn't ask for a job, and you shouldn't. What you did is ask him to sit down and talk about himself and his accomplishments for probably 15 minutes. Who wouldn't want to give his personal highlight reel over a cup of coffee? Everyone would like to talk about himself for a while.

Listen and learn

By making this invitation, you are exceeding the effort of at least 90% of recent college graduates in meeting people and creating connections. After actively listening to this person talk about his background and what he does, you might realize that it is something you are wildly interested in and you have just gained some clarity into what you want to do for your career. More importantly, you might realize his job sounds like the worst job in the world and you wouldn't want to waste one minute there. Either way you have gained insight to help you narrow your focus. If you were really successful, you found a way to ask for a connection with a decision maker at his company. Or maybe he will share with you the name of a friend of his who is looking for someone just like you.

Remember, these connections can lead to more opportunities. More opportunities lead to more money. I work with several multimillionaires whose strongest skill is developing connections with people and advancing their careers.

Try to reciprocate

Before the meeting ends, ask if you can do anything to support him. You might find out about a job opportunity that's the perfect fit for a friend or fellow graduate. You might learn he needs people to help with a charity event in a few weeks. Whatever it is, welcome it, and do it. Nothing reflects worse on a person than making a commitment and not following through. Remember, these are important friendship and networking seeds. This budding relationship could blossom into a beautiful rose one day. Better yet, it might blossom into a money tree in the form of a successful career. You never know.

Once you find a job, don't stop networking—ever. Make it a point to reach out to folks on a continual basis. Just because you like your job now doesn't mean you will like your job forever. Start a habit of making a morning phone call on your way to work. If it's easier, do it on your way home. Make sure you spend time every week reaching out to people. That doesn't mean calling your best friend and talking about "The Bachelor." That means going upstream and talking to people whose careers are further along than yours or colleagues in other fields. Just make one phone call a week to keep from getting rusty and to keep that network humming along.

Your biggest asset

When you are just getting started, your biggest asset is not your investment portfolio—obviously. I'm sure most people in their 20s are in the negative by a good margin. I'm sure a lot of the over 20 crowd reading this chapter also are in the red. That's ok. Everyone is a walking work in progress.

In this phase in life, your biggest asset is your income potential—your career. You should spend time and energy cultivating it and growing it the best you can.

This cultivation of your career means finding a mentor to help guide you along the way. Former teachers, both high school and college; family friends and neighbors; and people with whom you worked or volunteered while in high school or college—each of these people might be a great source for opportunity.

Get active

You need to:

- Take as much responsibility as you can in your job.
- Get to the next level by obtaining certifications or completing graduate school.
- Never become complacent with where you are.

Create a habit of constant improvement. Your finances depend on it. In your 20s you have more time and energy than you will at any point later in your life. If you can focus even a small portion toward going above and beyond in your career, it will pay abundantly.

Prove to yourself and everyone around you that you are ready and willing to take things to the next level. If you can make professional development a priority, then others will take notice. These actions will lead to growth and greater fulfillment.

Now is the best time to do these things. You are at your peak of energy and time. If you put off furthering your education or obtaining certifications until you are older, you risk losing momentum.

How to evaluate a job

Evaluating job opportunities should take into account the total financial implications as well as your personal happiness that a new job might offer. The financial implications are not just limited to the salary number either; they go deeper. Just as importantly, your happiness doesn't come with a price tag, but is critically important.

Now that the networking and job searching has paid off, you have a couple positions that are available to you. How do you evaluate more than one offer?

The daughter of one of my clients, Lisa, graduated with a degree in communications and received two job offers. Offer #1 paid $50,000 a year with a retirement plan and health benefits. Offer #2 paid $45,000 a year with a retirement plan and health benefits. I recommended Offer #2. Why would a financial advisor recommend taking a lower salary?

Looking at the big picture

I had to ask some more questions to truly evaluate both offers. These questions were ones everyone should consider when looking at opportunities. The higher-paying offer was at a much smaller company and offered fewer career advancement opportunities. The lower-paying offer was at a much larger company with a clearer career paths. It also had some brand-name recognition that future employers would love to see on Lisa's resume.

Side note: the odds of working in one place for the rest of your life are not good. A college graduate today will have an average of seven jobs in his or her career. Seven! The days of being a "Company Man" are far behind us, and little loyalty to long-term employees is shown in today's corporate world. The last sentence is focused mostly on a career in the private sector; government and municipal careers are different.

Delving into the options

Lisa delved further into the two opportunities. Each offered a retirement plan, though not all retirement plans are the same. Each company ran its plan differently. Offer #1 had a two-year waiting period before employees became eligible to participate, while Offer #2 had immediate eligibility. Offer #1 did not have a matching provision, meaning Lisa could put her own money into the plan, but no additional company money would be added because of her contributions. Offer #2 did offer matching in the following way. The company would match dollar for dollar on the first 3% of her contributions, and 50 cents on the dollar for the next 2%. This split meant if Lisa contributed 5% of her salary into the retirement plan, Offer #2 would give her 4%. Free money.

The final consideration was the location of the companies. Here in my home state of Maryland, a huge difference exists between living in Baltimore or in Washington, D.C. Offer #1 was located in the nation's capital. Jobs in the District of Columbia or other big cities like New York, Chicago, Boston, Seattle, Los Angeles or San Francisco typically pay more money than a comparable job in Baltimore. The reason you can make "Big City Money" is because you are also paying "Big City Prices" on rent, automobile insurance and food. Washington, D.C. is extremely expensive to live in and navigate. Consider the fact that one of your neighbors is the President, who travels with his massive entourage wherever he goes.

Offer #2, the lower-paying position, was located in Baltimore, where prices are much lower when comparing costs to Washington DC. Rent is much lower in Baltimore. Car insurance is much lower in Baltimore. The location of the job is a very important consideration when weighing two or more job opportunities.

How to choose

The point is this: choosing a job based on a higher salary is not always the best choice. Many factors need to be considered. Consider career advancement, the full benefits package, and the location of a job before accepting a position. Probably more important than the money side of your decision is whether the job excites you. You have to ask yourself if this is a company you believe in and will look forward to going to work every Monday.

You spend a lot of your time at work and you should be happy while you are there. Balance the financial aspects of a job along with the intangible life-fulfillment aspects as well. Be careful not to tip the scales too far over to the touchy feely side of this decision. It's okay to follow your dreams, as long as your bills are getting paid and you are in a strong financial position.

Finally, Lisa ended up taking Offer #2. She understood the importance of all the aspects of the job offer that went beyond "the number."

Create an emergency fund

I recently had lunch with Nathan, the son of a client of mine. Nathan is 24 years old, has no student debt (lucky him!), and has a job paying about $40,000 a year. He had questions about retirement plans and retirement savings. "How much should I save for retirement?" and "Should I participate in my company's 401(k)?" Those are great questions for a 24 year old to ask, but to answer his questions, we needed to discuss some other topics first.

I asked him how much money he had in savings, his Rainy Day Fund. His full answer was hilarious. “Well, I had more, but I had an accident with my car.” When I asked some more questions, the real “accident” story came out.

Nathan had some old college friends visit his new place in the city. They were reliving their glory days of college and went out for drinks. The end of the night became a little fuzzy for Nathan and his friends. After “last call” and several Uber rides, Nathan made it home with his friends. The next morning he conducted a quick check:

Cell phone: check

Wallet: check

Keys: uh-oh

No keys equal big expense

Nathan could not find his keys. In a panic he asked his friends, his roommates and anyone he could remember running into the night before. He backtracked to his last known whereabouts, but came up empty. His keys were gone.

What happened next provided an invaluable financial lesson. When you lose the keys to your car with remote-locking ability, you can’t just call a locksmith to open your car ($150). You also have to get your car towed ($250) to a dealership, where they run diagnostics ($100) and determine that you did, in fact, lose your keys. With today’s advanced anti-theft systems, the car dealer has to order new keys. Then they can program them specifically to your car ($500).

This $1,000 mistake provided an invaluable lesson. In life, the unexpected has a way of happening when you least expect it. Nathan should be just as concerned with his Rainy Day Fund as his retirement fund.

Whether you lose your keys, need a security deposit and one month’s rent up front, or whatever other bigger expenses you don’t see coming, you need to have money set aside to cover these things. No matter how you plan your budget, you need to set aside an appropriate amount for the likely surprises that life likes to throw your way. If you are extra clumsy/forgetful/scatter-brained, then you should make this Rainy Day Fund an even bigger part of your budget.

How to budget

Everyone should know they need a budget. The problem is how best to create and live within a budget without negatively impacting your day-to-day life.

One of the toughest tasks of personal financial planning is the dirty "B" word: budgeting. While this topic tends to be the least appealing to discuss with clients, it is arguably the most important. I never like sitting down with someone for an hour or more talking about cutting down on fun expenses. But it is an important component of financial planning and one that must be addressed to have any chance of meeting your financial goals. Still, when the topic of a budget comes up, we can skin the budget cat in many ways.

Pick an approach

Some think of the old-school method of creating a spreadsheet and tracking all expenses. Others have an envelope system, where they put money into envelopes for each spending category each month. Once they spend all the money in the "Shopping" or "Eating Out" envelope, they have to wait until next month to spend additional money. I have even heard of a "Spending Cleanse." One finance blogger went a year without spending money, except for rent, healthcare and basic food. While he said it transformed the way he looked at spending, it doesn't sound fun or feasible to me. But that's just me.

So how exactly do you create a budget? No one-size-fits-all answer works for this question. I have seen many different types of budgets and tracking mechanisms that have worked for people over the years. The best answer is using a system that works for you. That's a cop out answer, but it's true. Try out a few different methods and see what works best.

A simple spreadsheet works

I recently heard of an idea for starting a budget from a younger couple. Their paychecks were deposited electronically every two weeks. To track their spending on a paycheck-to-paycheck basis, they created a simple spreadsheet. The spreadsheet started with their net paycheck (what actually goes into their bank account). For the next two weeks, they added to the spreadsheet every expense they actually incurred and the spreadsheet reduced the paycheck total each time.

This easy exercise is completely tailored to the individual creating it. Sometimes it's difficult if most of your expenses are in the beginning or end of the month. If that's the case, track your expenses on a monthly basis. This approach may be more labor intensive than using some kind of online tracking tool. That's okay because a bigger impact occurs when you manually write in each expense, as opposed to having a program capture it for you. The writing serves as a real reminder of how much you are actually spending, the expenses you often don't even think about.

Once you get a good baseline understanding of your monthly spending, try using something that takes a little less maintenance. I have seen a lot of younger (and older) clients use Mint.com with success. Other options do exist, but I am most familiar with Mint.com. The simpler your financial situation, the easier Mint.com is to use. When things are a little more complicated, Mint.com becomes more difficult to use. For example, self-employed people who commingle business transactions with personal transactions (which is a bad idea) may find Mint.com cumbersome to use to clean up these accounts each year.

Keep track of your money

If you get a regular paycheck, then spend the money and that's about it, Mint.com can be useful. Mint.com also has a mobile app and it will automatically track your spending, and you can customize the categories. If you run most of your transactions online or through a credit card, then it will probably work well.

I have some clients who are disciplined enough to go through all expenses each month in a comprehensive spreadsheet. They track every penny and know where their money is at all times. But that system doesn't work for everyone.

While the B-word has a bad reputation, it really isn't the budget that drives whether you are spending too much or not saving enough each month. It's the way that you look at expenses that drives how much you have left over.

For example, do you get Dunkin' Donuts coffee on the way to work every day? Do you justify it by telling yourself, "I'm saving because I go to DD instead of the more expensive Starbucks"? Do you buy lunch every day because you are too lazy to go to the grocery store and pack lunch instead? Do you go to the bar and buy everyone shots? Does the Amazon delivery person know you by your first name and visit you every day with packages?

The best budgets are ones that people can easily manage, with room for the occasional mistake or splurge purchase. Start by simply tracking your expenses first before moving on to projecting what you will spend going forward.

Debunking the budget myth

People are afraid to go to the doctor for checkups much the same way they fear creating or, worse, following a budget. If you don't go to the doctor, and she doesn't tell you what's wrong, then you must be fine…right? If you don't look at how much you spent on that weekend trip to visit a friend, it's like you didn't spend the money, right?

Trying to create the perfect budget is a myth. That unattainable goal is much like trying to get your body fat down to 0%. The goal with a budget is to find a way to understand what you are spending and where your money is going.

You can't improve how you are doing if you have no idea what you are doing. I believe the best budgets start by looking backward. Predicting the future is difficult. And, by difficult, I mean impossible. Look at how, historically, you have been spending your money. Usually that basis will be good to determine where all your money goes. You might find out you are spending $235 each month on Sunday brunch. You bought $38 worth of songs and apps on iTunes. The Uber fees last month crept up to $278. Oops.

You might be asking yourself, "Who cares what I spent last week/month/year?" Hopefully, by tracking what you spend, you THINK more about each future purchase. What if you do two Sunday brunches with friends instead of four each month? Or what if you get Dunkin' Donuts iced coffee on Fridays instead of everyday? These changes won't kill you, but they will significantly enhance your financial picture over time.

Build in rewards

You probably will benefit from some kind of reward system, which can keep you motivated. Actor Dwayne "The Rock" Johnson wakes up every day at 4 a.m. to work out. He eats whole grain, veggies, and lean protein. The Rock also has famous pictures of his cheat meals. The most popular one has the caption of "After 150 days of eating clean, The Rock allowed himself a cheat day of 12 pancakes, 4 double dough pizzas and 21 brownies." Google the picture; it's unbelievable. Don't go as long as The Rock; 150 days of spending clean is very difficult, if not impossible.

So when it comes to a budget:

1. Take a look backward at what you have actually spent.
2. Factor in the unusual purchases that usually find their way into your budget each month.
3. Make thoughtful decisions and spend wisely.
4. Create a reward system to help keep yourself motivated.

If you can understand where your money goes in your 20s, you will be far ahead of most of the population. Budgeting isn't about denying yourself things that you want. It is about being aware of your spending and thoughtful toward what you are purchasing. The goal with a budget is to cut out the wasteful spending and get more out of the money you do spend.

The second benefit of budgeting and mindful spending is being prepared for big expenses. Lots of times those expenses come out of nowhere, but they also can be planned far in advance. One of the biggest expenses of your 20s that many people don't consider enough is the cost of weddings. Not your wedding, but the weddings of everyone in your social circle.

Weddings – lots of expenses

If you are in your early 20s, one expense item can blow your budget unexpectedly. Many people in their mid-20s to early 30s know about this expense. They will be nodding their heads up and down in agreement. If you are in your 50s or over, you will think "I never had to deal with any of that when I was younger. Kids these days…" And they will shake their heads side to side in disbelief. This single expense can consume much of the money in your accounts when you are in your 20s and early 30s.

Weddings—and not just your own, but the weddings of all of your friends and peers. And lots of them. Unless you have no friends. If you have no friends, you need not worry about weddings or the costs associated with them. No friends means you should have lots of extra money, but also no one to enjoy it with.

In all seriousness, the cost and time associated with your social circle getting married will leave you like a frog in a pot of cool water.

Typically, the first of your friends will announce an engagement. Everyone will be excited and no one will be surprised because it will be a couple that has been dating forever. Then you think about the fun stuff like the bachelor/bachelorette party and the wedding, with free food and open bar. Great, right?

A frog in hot water

You are a frog in a pot of cool water…sitting on a stove that is turned on. The water warms up and feels great...relaxing.

Now you have to book accommodations for the bachelor/bachelorette party and buy an ugly bridesmaid dress or rent a cheap tux. Then you have to book a hotel room for the wedding. Let's not forget about the bridal shower and wedding gifts.

Soon enough that pot of water is getting too hot.

Before you know it, the next three engagements are announced. You will be in two of the weddings. The bride and groom wants everyone in the wedding party to fly to Vegas/Austin/Punta Cana/Wherever for their bachelor party.

The water is now boiling.

If you are new to the wedding scene, you underestimate just how much that "free food and open bar" really costs you as a guest. If you are in the wedding party, you will spend $500 to $2,000 for each wedding. To the older crowd, this section might sound like nonsense. However, it is true in today's society. Of course, not everyone will have these expectations, but a lot more will than you think. The days of going to a nice dinner and then bar hopping before you tie the knot are over. You will be going to a nice dinner – of course, at the nicest restaurant in town. Bar hopping will be bottle service at an overpriced "club." (Whatever that means. I'm too old for such things now.)

Feeding the wedding monster

How did this wedding spending get so out of control? The same way every irrational decision is made when it comes to money. "It's my/your/our special day." Or, "We only get married once [if you are lucky]."

(If you have a wedding or two on the horizon for your children, I have a section later about how to tackle that expense.)

So now you can expect multiple $500 to $2,000 expenses to come up in the not-so-distant future. Besides cursing yourself for being popular and social, what can you do about it? If shedding yourself of friends is not a viable option, (kidding) then you need to start prepping.

You need to build these expenses into your budget. You need to increase your cash on hand to a higher level than you think you will need. In your 20s, the cash you can save up will go toward the unexpected things in life. If you can handle the one-off expenses like car repairs or the blowout bachelorette party or the apartment security deposit… you will be far ahead of most others.

Those habits and lessons will help you tremendously later in life. Because the ante gets upped later in life. Instead of a $1,500 bachelorette party to Napa, later in life, it will be a sudden job loss or some kind of medical expense. Maybe the car that you thought would last another few years gave out on you.

The bottom line is you will pay far more than you expect to watch people get married. Set aside money so that you are prepared and you can enjoy yourself without stressing about a growing credit card balance.

Savings in your company retirement plan

If you ask anyone your parents' age or older what their biggest regret with finances is, the answer will be, "I wish I had started saving for retirement earlier."

In my career I am not allowed to offer anything that even closely resembles a guarantee, but if I could, I would guarantee that is the number one biggest financial regret. People usually wish they started investing earlier.

If you are in your 20s and have gotten this far in the chapter, then it's a safe bet that you are open to financial advice. Here is some simple math for how much starting early can really benefit you in saving for the future. Because believe me, the future comes fast. Only a few years ago, you probably were living the dream, trying to find the best beer specials on Thursday nights because you had late classes on Friday…

Let's say you are 25 years old and have four decades of saving ahead of you. This timeline gets you to age 65, around the time people consider retirement. If you can earn 7% a year on any savings, here is how the numbers work. Every increment of $100/month of savings will grow to a little over $260,000. How many quarter of a million dollars do you want for retirement?

Most people in their 20s don't think about the future. Even those reading this book. They will say things like "I don't have the money now." Then they will go out and buy a $150 jacket or $200 concert ticket without blinking an eye.

THE JOY OF COMPOUND INTEREST

Hypothetically, let's say you wait until you "have money to invest." (Which is never, because no one ever feels that they have extra money.) You are now 35 years old and have only three decades of saving ahead of you. With the same 7% interest compounding each year, here is how the numbers work: Every increment of $100/month of savings will grow to a little less than $125,000. That is less than HALF of the person that started early. The extra roughly $15,000 of savings the younger person put in turned into an extra $125,000 with the power of compounding. Basically, $15,000 turns into $125,000 with 40 years of compounding at 7%.

You should keep in mind that these are hypothetical examples and are not representative of any specific situation. Your results will vary and the hypothetical rates of return used do not reflect the fees and charges to investing. Of course, a diversified portfolio is no guarantee of enhanced overall returns or of outperforming a non-diversified portfolio. Diversification will not protect against market risk.

People from all age groups can sometimes get wrapped around the axle. You might say that $250,000 isn't enough to retire on anyway, so who cares? Right? Wrong. This approach is more about building the habits of investing at a young age. By starting early, you will be more likely to increase the savings as you make more money throughout the years. You earn nothing by waiting.

Waiting until you make more money turns into waiting until you buy a house, which then turns into waiting until the kids are out of daycare. Then it turns into waiting until the children are out of college, which then turns into waiting until you find a new job because you were let go. Then, sadly, it turns into having no money and moving into your child's basement.

Another reason to start saving early and putting money into your company's retirement plan, if they allow it, is FREE MONEY!

Almost a free lunch

I will let you in on a little secret: nothing in life is ever free. No "free lunch" exists; everything has a cost or a tradeoff. If you move back in with your parents and stay for free, you are practically guaranteed to have to live by their rules, which means describing in excruciating detail your whereabouts and whether or not you're coming home, and if you're eating enough breakfast…and so on.

Nothing is free. Except for company matches on your retirement account. I have been evaluating individual financial situations for many years and can confidently say the company match on retirement accounts is the closest you'll ever get to a free lunch. Not all companies offer this benefit, but a majority of them do. If you don't know whether your company offers this opportunity, put this book down for a moment and call or email the HR department right now.

Companies can contribute to your plans in a variety of ways. I will try to keep things simple. You might have a 401(k) plan, or you might have a 403b, a 457, a TSP or some other lesser known retirement plan provided by your employer. No matter what the combination of numbers and letters, some common contribution methods exist.

Varying levels of generosity

Some companies will put money into a retirement account for you without requiring you to add any additional funds. However, this kind of generosity is less likely in today's world. Even if the company puts money into your account without any participation on your part, you should still pursue putting something in yourself.

Most companies will "match," meaning they contribute money but only if you put in your own money as well. Some companies will match you dollar for dollar up to a certain percentage. For example, if you put in 3% they will also put in 3%. In this case, the total contribution is 6% of your salary, only half of which is coming out of your pocket. This deal is great for you.

Some companies will match a little differently. For example, they might match 50 cents on the dollar for every dollar you put in. They will cap the total contribution. An example of this approach might require you to contribute 6% of your salary and your employer will kick in 3%. The total contribution would be 9% of your salary, with 6% coming from you and the rest from the employer. While this deal isn't as good as the first one, it's still a good deal.

Here is some blanket advice, which is rare in the personal financial industry, to anyone I come across. When looking at your finances, the first step should be to take full advantage of the company's retirement plan match. If you went to Las Vegas and the game of choice offered you a guaranteed double on every dollar you played, how much would you play?

Side benefits

The side benefit of contributing to this plan, besides accumulating assets, could be some tax savings. If you have a job, I'm sure you have noticed how your paycheck is reduced by taxes and a bunch of other little line items. If you make a traditional contribution to your company retirement plan (at the time of this writing), the amount you put in occurs before they figure out your taxes on that paycheck. In other words, they don't tax that money then. The retirement plan investment happens before everyone gets their share of your money. It's pre-tax or before you are taxed on the money.

How much should you contribute?

Answering this question is difficult because everyone has different circumstances. The simple answer is you should contribute enough to get as much employer match as you can. Start there.

A goal to shoot for is to try to save approximately 10% of your earnings. Not all of that savings needs to be, or should be, placed in your retirement plan. As I mentioned earlier, you need a cash savings cushion for unexpected expenses like weddings and all of life's wonderful surprises.

Of course, you should try to eventually save more than 10%, but I realize Rome wasn't built in a day.

Most company plans will offer a menu of investment options. Hopefully, they have some lower cost options and allow for you to invest in various funds. Some companies that are publicly traded will allow you to buy company stock as well. This situation can be tricky. Since you work at the company you might be lulled into a sense that you understand better than others how its stock will perform. You do not want to over-save into the company that employs you. Even if it's a tech start-up that is promising to be the "next big thing."

The time-tested and proven formula for financial success is diversification. Take a packet of pencils. If you pick up one pencil and try to break it in half, it isn't that difficult to break it. Individually, any single pencil (or two or three) is relatively fragile. Now take the packet of pencils and bundle 20 or, better yet, 50 together. They are nearly impossible to break in half. In oversimplified terms, diversification with investments works the same way. The more places you spread your money, the less chance of it breaking apart.

Mix it up

When you are younger you can be more aggressive—in a thoughtful way. To me, more aggressive means owning a larger percentage of stocks rather than bonds in a portfolio, and owning some large, medium, and small stock funds or indexes in addition to foreign stock funds/indexes, too.

If you don't want to do the research into which specific funds or indexes to own, it's very easy to use someone else's homework when investing. With your retirement plan, more employers are offering a simple solution. The two common simple solutions are Target Risk Allocation Funds or a Target Retirement Date Allocation Fund.

A Target Risk Allocation will assemble a portfolio for you and bundle it up into one investment. A few options are available on the risk spectrum. They may be named something like Aggressive, Growth, Moderate, Conservative or something close to that.

The autopilot option

A Target Retirement Date Allocation will work similarly to the Target Risk with one major difference. It automatically puts you into a more aggressive mix the younger you are and rebalances your investments to less risk the closer you get to your target retirement date.

Rebalancing your retirement account is usually one of the last things people think about, so it may be good to have it on autopilot. Once the dollar amounts get bigger or your situation gets more complex, you might want to consider some customization.

Remember, investing in mutual funds does involve risk, including the possible loss of principal. The target date is the approximate date when investors plan to start withdrawing their money from the fund. The principal value of a target fund is not guaranteed at any time, including the target date.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Automatic increase

Recently, a push has been made to ensure that company retirement plans work better for their participants. With the increase in technology, many exciting developments with the 401(k)/403b/etc. have been occurring. At least I consider them exciting.

These days most retirement plans allow you to access your account on your phone. Additionally, they offer more research so you can be better informed with what is going on in the market. I would argue that investors can be too informed with all the information available, but I'll discuss overconfidence in a later chapter.

Some of the 401(k) tools allow you to plan for your future, which I think are more helpful than the market research tools. You can project what your balance will be at retirement if you contribute a certain amount. That number can also be converted to a monthly income amount, where you can see how much you can spend in retirement.

All of these are great, but one improvement eclipses all of them when it comes to the biggest positive impact to your retirement savings goals: **the automatic increase.**

More and more retirement plans are offering the option of increasing your contributions on a systematic basis. Think of it as autopilot increased savings. Because this increase is automatic, it is extremely effective. Here is how it works: when you sign up for the plan, you can select the option to automatically increase your percentage deferral.

Ongoing increases

Not that long ago, I helped a client, Amanda, who worked at a recently acquired technology company. She had to convert her old company's 401(k) into the new parent company's offering. She was able to do everything online, and we talked through the process together. Recently, Amanda had some circumstances that required her to reduce her contributions to her 401(k). She had been contributing 10% of her paychecks into the Target Retirement Date portfolio option, but that amount had been reduced to 5% a paycheck.

The new company offered her the ability to increase her contributions each year. We agreed that she should increase her contributions by 1% each year. This plan even allowed her to pick the date each year for the increase. She typically received her annual raise in July, so we decided that on August 1st of every year her 401(k) would increase. Also, she could even cap her contribution percentage, which we set at 10%.

In just five years, Amanda will be back to what she used to contribute. By making it automatic and occurring around the time she usually gets a raise, she won't feel the pain of the increases or forget to adjust the contributions. We calculated the possible benefit of this strategy at retirement, based on historical data, and it could net her about $1 million **MORE** than if she didn't make her automatic increase. One Million Dollars More.

Even though Amanda is a great saver, life gets busy and it's easy to forget to work toward your savings goals. Making the increase in savings automatic is probably the most effective way to increase the amount of money you accumulate.

Traditional vs. Roth

My clients often ask if they should be saving into a Roth or a Traditional IRA/401(k). To accurately answer their question, I ask them to project their tax rates throughout their retirement as well as their date of death. I'm only half kidding.

The real answer to which is better is anyone's guess. We don't know what tax rates will be in retirement, or how long retirement will last. We don't know what kind of income you might have over your lifetime. We also don't know what personal circumstances you might have throughout your career. A health crisis or family crisis could arise, as could a myriad of other unexpected life events. When faced with this kind of uncertainty, a sensible approach would be to explore both Traditional and Roth options.

When you invest into the Traditional 401(k)/403b, you obtain the tax benefits now. What you put into the account will be tax deductible. Then when you are in retirement, and satisfy all of the IRS requirements, the money that comes out is fully taxable, including your principal contributions. The Traditional option lets you save without paying taxes now. You will pay them later. The logic is that your income is higher now than it will be in retirement so you save on higher income taxes. When you pay taxes in retirement, you are assumed to have lower income and, therefore, should be in a lower income tax bracket.

But you know the old saying when you assume something.

Before-tax and after-tax dollars

The Roth option works the opposite of the Traditional from a tax sense. You use after-tax dollars to contribute to your Roth now. Later, in retirement, assuming you satisfy the IRS requirements, the money you take out is tax-free. Hence, it makes sense to also add to your

Roth option (assuming one is available to you).

However, tax rates change all the time, as do most peoples' financial situations. So it is difficult to accurately predict which option is best, which is why doing some of each can make a lot of sense and provide some flexibility.

Keep in mind that any employer contribution is always 100% Traditional. Even if you put all of your money into Roth, all of the company money will be going into Traditional, meaning it will be taxed later.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the Roth account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Any withdrawals prior to age 59½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

Premature Distributions

The balance in your retirement account should hopefully grow and grow. As your balance gets bigger from contributions, and hopefully market gains, you may be tempted to spend some of that money. Only consider this option in a true emergency and only as a last resort. Neither a vacation with friends nor a down payment on a house should be considered an emergency.

Money you take out of your retirement account will be taxed and heavily penalized. More importantly, taking this money from your retirement accounts cuts short your future growth potential for every dollar you take out.

I would venture to say that 95% of people I talk to who took out retirement money early regretted that decision. The other 5% who are indifferent, are the type of people who will never be able to afford to retire.

Pay off debt

If you ask ten people in their 20s what their biggest financial concern is, I bet most would say paying off debt. People in their 20s have two kinds of debt: Credit cards and student loans. If you want to ruin a bunch of peoples' day, yell "SCHOOL LOANS" and watch Millennials turn to despair. It's depressing.

The average college graduate from the Class of 2016 owed $37,172 in student loan debt, according to *Forbes* magazine. The last I checked, tuition is only getting more expensive every year. This problem is only growing among younger Americans.

When stressing about student loans, I like to ask a question, "How do you eat an elephant?" The answer: "One bite at a time."

Do not waste any energy looking backward. It doesn't matter if it took six years to graduate, or if you went to an out-of-state college, or if you didn't want to work while attending school. Plenty of people who worked their way through four years of in-state college still have student loan balances that would make Baby Boomers cringe. College costs are so crazy out of control that you can do everything right and still drag around tens of thousands of dollars in student loans.

No easy solutions

The first thing recent college graduates tend to do is look for an easy solution to the debt. I have not heard of anyone successfully completing a loan forgiveness program. I have heard of many, and only a slight few seem legitimate. Personally, I've heard no success stories.

While there might be a loan forgiveness program out there that works, you would be wiser to operate under the assumption you won't find one. The overwhelming odds are that you will have to pay back the loans the old fashioned way: through hard work and smart decisions.

You have to look at school costs and the resulting loans as an investment. You should make sure it was a wise investment. Even if the investment didn't pan out the way you thought, you can't get rid of the debt until you pay it off.

You must make sure that what you put into the investment pays off more than your initial deposit. Or at least break even. If you have a degree for which you've paid handsomely, you need to obtain the best job in that field you can.

Fixed interest-rate loans can help

So how do you ultimately eat that elephant of paying off your five- or six-figure college debt? One payment at a time. When interest rates are low, try to secure a fixed interest-rate loan. With low interest rates, finance the loan for as long as you can. How exactly do you make those payments and still live the lifestyle you want?

Here's a story with the answer: Bailey recently graduated from medical school and came to me to discuss her plan to pay off her $125,000 school loan balance. She was making between $60,000 and $70,000 a year and her monthly income was roughly $3,500 to $4,000. Her monthly loan payment was about $1,100 a month. Bailey was concerned this loan payment would keep her from living the lifestyle for which she hoped. Well…yes, the loan payment will affect her lifestyle. It will affect how much she can spend for the next 360 months to the tune of $1,100 each month. I told Bailey she had three options:

- Spend less money
- Make more money
- Make more money AND spend less money

We started discussing ways for her to spend less money. None of our discussion involved groundbreaking information and none of it really seemed all that appealing to her. Things like moving back in with her parents, buying a lower cost car, and being more selective how she spends her money on entertainment did not sound like fun.

Exploring the options

Of course, these options didn't sound like fun. She had to sacrifice because she had chosen to further her education and future job potential. Spending less did not seem to be the route she preferred so we looked at another option.

Bailey seemed to be more open to the second option of making additional money. She said she had not really considered that as an option, and most people don't. Her career job was 9 a.m. to 5 p.m., which left her weekends and nights open. In our discussion, we brainstormed different ways she could pull in some extra cash. She did not have to go work as a waitress or bartender, although those were great options for earning a good amount of money fairly quickly. She could teach yoga classes, become an Uber driver or do some consulting in her field (assuming her employer would allow it). Finding an enjoyable side gig to bring in extra money to pay off debt you accumulated years ago is never easy. But nothing in life worth doing is easy.

Hopefully the school loans will end up being a profitable investment in your future. It's tough to see that when you're staring down $500 to $1,000 or more in loan payments each month. The income potential and increased opportunities that will result from the degree you have earned will hopefully outweigh these payments.

The expenses keep on coming

Each phase of one's financial life seems to have some large expense that people can't wait to shed. The problem is another large expense is likely right around the corner as soon as you're finished with the last one.

Once you pay off your school loans, perhaps childcare expenses take their place. Once you're done paying for childcare, then saving for your kids' college become a priority (especially because you remember what paying for your school loans was like). After you get your kids through college, then it's time to get serious about retirement.

Your life will always likely have some large expense item built into it each month. When you are just starting out in life that item is typically school loans.

Let's shift gears and talk about the other type of debt with which younger and older people struggle: credit card debt. If you have credit card debt it is likely caused by two reasons:

- You lived on credit cards in school.
- You live beyond your means now.

If you lived on credit cards in college, then you need to follow the same advice as Bailey with her student loans. Cut your spending and/or increase your income. It's as simple as that.

Credit cards can mask bigger issues

If you carry a credit card balance from month to month, then you do not have a handle on your budget. You are living beyond your means and putting those additional expenses on your credit card, which often puts spending out of sight. It also leads to a snowball effect of a bigger and bigger balance that eventually you will have to address. You might as well tackle it now while balances are smaller.

If your credit card balance comes from things like car repairs, wedding costs or other unexpected expenses, then your budget needs adjusting. You need to expect the unexpected with your budget and plan for big expenses that pop up from time to time.

A lot of people overuse their credit cards, hiding behind the excuse of "I get points when I use it" or "It helps build credit by charging the card." Unless you can pay off the balance EVERY month, with no exceptions, then the interest you will pay will wipe out any benefits of using a credit card. The points are only worth about 1% to 2% of purchases while you're likely paying 12% to 24% in interest. How does that make sense? Building your credit may seem logical, but is not a fair trade off if you are flushing money down the drain on interest payments.

Decisions

Your 20s are an important period in your investment life. The decisions you make now can play a huge role in how you get to live the remainder of your life. Don't put these decisions off. Remember how many people say later in life that they wish they started saving for retirement earlier. Get on it now. Make it a practice now. When you are older and additional challenges come, and they will, you will have the discipline to continue your good habit of putting money away for your future.

You will be ahead of the curve if in your 20s you can accomplish the following items.

Begin your career after evaluating job prospects and work to create more opportunities. Find a way to spend less money than you make. Take advantage of any employer retirement benefits.

Keep in mind that life throws us big expenses from time to time, including the cost of weddings. Prepare yourself for these things without getting deeper into debt and it will be smooth sailing into your 30s.

Buying a House

Paying for a roof over your head is most people's single biggest monthly expense. It is important to make sure your decision of where to live doesn't leave you out in the cold, financially speaking. It's just as important to look beyond the financials of the next place you call home.

Let's assume you are that 20-something who is looking for a new nest to call your own.

First, you want to find a location that makes sense. The most important aspect of finding your own place is to look in safe neighborhoods. To the over-20 crowd reading this section, that statement might seem too obvious to even mention. However, the recent college graduate with a new job hasn't truly left the bubble yet. Think about it: they've gone from the protected home with parental oversight to a college environment likely living on or near campus. While that offers much more freedom, it is also a typically safe and secure environment. Colleges would have a tough time recruiting customers, I mean students, if safety was a big concern.

Be aware of your potential neighborhood and do a thorough scouting. If the prices seem much lower for a comparable apartment or house, there's usually a good reason. Even if it's within walking distance to your favorite restaurant and has a brand new kitchen, don't move to the wrong side of the tracks. Saving a couple of dollars is not worth the potential risk to your safety. Besides, is saving a couple hundred bucks a month on rent really worth it if you are replacing laptops that are stolen or repairing windows that get smashed in on your car? Or worse? Invest in a good neighborhood.

Should I rent or buy?

This question might be my favorite from the 20-something group. Varying opinions – and strong opinions – on this topic are prevalent. My opinion is also quite strong and decisive: it depends.

I met with Jake a few years ago. He had been renting a townhouse in the city with some friends for a couple of years. He worked in sales, selling medical equipment. The small, young company he worked for had been building its reputation and earning more work with local hospitals. Jake started getting bigger and bigger commission checks. With these bigger commission checks, he was also building his bank account. That's when he came in to see me.

He had about $100,000 in his savings account, he was contributing to his 401(k) plan, which was up to $40,000, and he was adding about 10% each year before the company match. He wasn't married and didn't have any children. He said work seemed to be steadily getting busier and more profitable, and he wanted to buy a house.

When I asked him why he wanted to buy a house, he had the classic response. "I don't want to keep throwing my money away on rent." Side note: whatever money the National Association of Realtors has spent convincing people that renting is a bad idea has been money well spent.

Thinking beyond the four walls

He said he saved up some money for a down payment and with his income he could afford to buy. Whether you can afford something is an entirely different question from whether you SHOULD buy something. To determine if buying a house made sense for Jake, I had some more questions for him.

I asked where he was looking to buy a house. He said somewhere in the next city over (where he was renting) about an hour from his office. I asked him about the commute and how that was going. He said terrible. Then I asked about his career path and where he saw himself in five years. He said he had no clue, but he didn't want to stay at his current job much longer. He mentioned that most of the jobs he found interesting are in the same city where he currently works—an hour away from home. Last, I asked about his family situation. Jake said he was in a steady and committed relationship with his girlfriend, who hated the city.

After roughly a five-minute conversation, this was the scenario: Jake worked an hour away from home; he didn't love his current job or commute; he surmised most of his future job options were also an hour away from home; his serious girlfriend didn't want to move into the very city where he was looking to buy a home. So what did Jake do? He bought the house in the city—obviously.

Just because you can afford to buy a home, doesn't mean you should. Renting a place is not "throwing your money away." Renting affords you flexibility. At an early phase of life, that flexibility is actually an asset that might outweigh the asset of a home purchase. After all, buying a home is an expensive proposition.

Going past the down payment

The down payment is only one of the many considerations associated with purchasing a home. Many other costs add up that do not build equity in the home. You may never recoup large outlays of cash if you change your mind about this home purchase and sell a couple years later. You have to pay taxes, fees, assessments, inspection costs and so on. Potential emergencies like a flooded basement or a bad electrical box, each of which can take several thousand dollars to repair, need to be remedied immediately. All those future repair bills are sunk costs.

Your monthly mortgage payment is not just the loan's principal and interest. It also includes homeowner's insurance, property taxes, HOA fees and possibly mortgage insurance, if you don't pay a big enough down payment. Those costs also are sunk costs and don't go toward paying down your home.

One word will completely take the wind out of your doe-eyed, first-time, potential-home buyer sail as you look to build equity in a new home purchase: amortization. Textbooks define amortization as the paying off of debt with a fixed repayment schedule in regular installments over a period of time. The real-world implication of amortization is that most of your monthly mortgage payments in the early years will not pay down the principal of your new home. Rather, that money will go toward the interest on the loan.

Amortization's effects

Let me show you an example:

The monthly mortgage payment on a $200,000 mortgage balance with a fixed, 30-year loan at 4% would be $955. That amount does not include other monthly expenses such as property taxes, homeowner's insurance, or any other monthly costs. Maybe first-time buyers know they are paying some interest, but they underestimate how much. With the above example, the amount of principal that will pay down the balance is only $288 in the first month. The second month? $289, and so on.

Now take the mortgage payment and add in the typical escrow items. Out of the roughly $1,500 mortgage payment, less than $300 goes toward paying off your house.

If you are like 100% of the other homeowners out there, something will break inside and/or outside of your home. Before the house is paid off, you will end up replacing a furnace, hot water heater, roof, deck, kitchen or something else. How many months of principal payments would get wiped out with an $8,000 roof replacement? In technical financial terms: a lot.

Bottom line: make sure the home you buy fits your lifestyle and future plans for at least the next seven years (the average time a person stays in a house). If you have reason to believe that your situation will change in seven years or less, rent the home and let your landlord deal with the headaches. You just bought yourself some flexibility, which is an asset.

Should you become a landlord?

More and more, people are buying homes as investments, thus making themselves landlords. This decision is a big one, even if it faces you while trying to move into a bigger house to accommodate a growing family.

I often get asked this question: "Should I rent out my old house?" No. Probably not. That's the answer I give to 95% of people. Renting sounds like a fantastic opportunity to make some extra money and grow your own real estate empire. However, the truth is many people don't have the cash to get started, the time to maintain it or the stomach for the risks involved.

If you're buying a bigger house, then you'll probably need most of your cash for the new house and everything that comes along with occupying a new home (furniture, paint, etc.). You probably have a growing family and career obligations, so your time is stretched thinner than ever. Add that most people are more risk-averse than they will admit and renting out your old home is generally a bad idea.

To be fair, let's look at the upside potential. You find a renter right away and they make your mortgage payments for you. When they move out, they leave your old home in good shape. Some painting and a few other minor repairs, and you can rent it again. Then you find new renters right away. The house continues to stay in good shape and your mortgage gets paid down slowly over time, building equity in your now rental property. Not bad.

A flood of problems

Despite my general positive outlook on life and money in general, real estate can be a money pit instead of a cash cow. Here is a real life example: a client of mine moved out of his starter home and decided to rent it, hoping to take advantage of a strong rental market. Unfortunately, he owed more than the home was worth. He bought the house at the peak of the real estate market in 2007, having almost no cash for a down payment.

He found a renter who paid the mortgage…leaving my client with about $200 in extra money each month. After a year or so, the renter moved out. The rental market softened and my client could not find a new renter at a price to cover the monthly mortgage payment. While the house sat empty, the roof began to leak. Beside the fact that my client unexpectedly had to pay the mortgage out of his own pocket while the house went unrented, the leak got worse and water flowed down the walls.

By the time my client had a rental showing, the water damage was extensive. The damage was visible to the potential renter, who ran away as fast as he could. It took two months and $20,000 to fix the water damage, then another six weeks to find a renter, who paid an amount that was still less than the actual mortgage payment. Add in the value of my client's time to deal with the entire project and it was a financial disaster.

For every five first-time landlords I counsel, three tell stories that ended badly, one has a neutral story about the success of being a landlord, and one tells a story where he comes out slightly ahead. The odds are not in your favor.

To me, real estate investing is for the pros to handle correctly. Even then it takes a lot of time and capital to get it right. So if you have just read your first real estate investing book and might consider renting your house, save yourself the money and aggravation. Take what you can now. Sell the home.

Your 30s

Goals for this decade:

- Understand who is giving you advice.
- Learn the difference between trading and investing.
- Start investing alongside your 401(k).
- Learn about life insurance.
- Understand estate planning for young families.
- Craft a college savings strategy for children's education.

By the time you reach your 30s, much of life has changed compared to when you started the previous decade. I guess I could start each chapter of this book the same way by saying, "You don't have as much energy as you did 10 years ago; it's a little harder to work off the extra weight, but you still feel like you're 18 years old on the inside."

But it's true. Guys will start to gray a little more and possibly begin/lose the hairline battle. Women will… actually, on second thought I won't go there. Women age like a fine wine.

Turning 30 to me meant an early mid-life crisis. I actually bought a 1960's muscle car. You would have thought I was turning 60 years old instead of 30. The funny thing is I had no idea how to even change oil in a car let alone maintain a 50-year-old Ford Mustang.

Checkpoint ahead

Aging has a funny way of making us reflect on where we are in life, especially when turning an age that ends with a zero. When you think about it, a birthday with a zero at its end has no real significance. But starting a new decade still seems to have a significant impact on most people. To many, it serves as a life checkpoint. Am I where I thought I would be in life? What does my future for the next 10 years look like?

We can easily look backward and reflect on the decisions that have already been made. As they say, hindsight is always 20/20. We can't change the past. All that matters is that we are moving forward. If you're concerned about how you frivolously spent money in your 20s, it is too late to worry about those decisions now.

Get honest

If you are stressed because you feel you are behind the ball on getting your finances in order, that's okay. Making an honest self-evaluation is half the battle. Crafting a plan to improve, and implementing that plan, is the other half.

If you are starting from scratch or starting with a ton of debt, that's fine, too. Go back and read the playbook for your 20s and make the extra effort to catch up. Your best bet is to start right now to take control of the future through the decisions you make going forward.

If it's any consolation, most clients I meet with feel like they have not done enough to save money. To me, whether or not it's true, that sense of not feeling secure with finances helps motivate people to make the right choices. I get nervous when I meet a prospective new client and they are overly confident in where they are financially and what they are doing. This overabundance of confidence can start to close the door to improvement. Stay hungry and never get complacent with your finances.

Who advises you?

You probably have some familiarity with investing and the way stocks and bonds work. By "familiarity with investing," I mean you likely own some investments. And by "knowing the way stocks and bonds work," I mean you have heard of the S&P 500, but probably couldn't describe what a bond is if someone really pressed you for a good definition.

In reality, I am always surprised by how little the general public understands about what investments really are and how they work. This situation makes complete sense because there is so much noise and chatter about investments from the so-called experts. They tell you when it's time to buy stocks, or when it's time to run for the hills and get out of the market.

These so-called experts might be talking heads on TV, radio or podcasts, an author with a story to sell, or a guru of some other sort...the list goes on. It doesn't matter. All of these people are prognosticators. They are less weatherman and more Farmer's Almanac. They do not help you clarify your financial position and coordinate an approach that will help YOU improve that position. Instead, they tend to come at things from many angles that only confuse matters.

Question every investor

You should take this outside information with the proverbial grain of salt. You should train yourself to question the experts' true motivations. Most of the financial data and analysis people consume are from friends, popular television and Internet personalities.

Recently, a client asked me if she should sell all of her investments. The market was relatively flat at the time so I was curious where she got that idea. She wasn't the type to come up with investing ideas on her own. She told me, "I read an article online that the market is about to crash like it did in 2008." I then asked her who wrote the article. She said, "I think it was… Marc Faber, or something like that."

Marc Faber publishes something called the Gloom, Boom & Doom Report. Faber's analysis is about 90% Gloom/Doom and 10% Boom. He constantly says the market is in a bubble. He calls for a 100% chance of global recessions and countless other negative financial scenarios. He is what folks in the business call a "perma-Bear." (A market "Bear" is someone who thinks the market will drop.)

After giving the brief biography of the author of this article, the client understood an important investment lesson: you need to explore the motivation of the person offering financial advice. Is this expert looking to generate advertising revenue or help you better your finances? The more sensational the prediction, the more clicks on their website. A more outlandish approach leads to more subscriptions to their newsletter. Or is this person truly vested in your financial success? Does this person know you and your financial history? Are they taking into account what your goals are when they tell you to do _______? That is the difference between a true advocate in your corner and the financial entertainer.

Separating market predictors and advertising salesmen from true advisors can be tough. However, doing so is crucial to improving the quality of advice you absorb to improve your finances.

Trading versus investing

I was at a social gathering recently and someone asked me about my thoughts on investments. He inquired about certain stocks or sectors (areas of the market like Energy or Healthcare).

The discussion was interesting for a couple of reasons. You may notice that as you get deeper into your 30s, people start building up their privacy walls when they talk about money. The lifelong taboo of talking about finances really takes hold, especially more than was evident in your 20s.

In your 20s, no one had money so no one cared about discussing it. In your 30s you start to get a little money and people begin to get secretive about it. This taboo will only continue to grow as people age and accumulate more money. Conversely, people get super-secretive if, as they age, they feel they should have more investments than they actually do.

Party questions

In any event, when most people talk about investments, it's an extreme taboo. Talking about how much you have saved, where the money is invested, or anything even remotely personal in nature is a big no-no. This possible U.S. cultural thing is fascinating. After all, most of us spend 40 or more hours a week working for money. We need money to eat and sleep with a roof over our heads. We need money to do most things in life. It is one of the top three most important issues to people (behind health and faith). But we cannot, ever, talk about money in a way that lets someone know what cards we are holding.

Thus, we talk in general terms about nonspecific things. From what I know about this person and his wife, I'm sure they have an investment portfolio of decent size and have money to invest. Can you imagine if he approached me and asked, "Hey Joe, I have $98,000 in my 401(k). Is that good?" I would love the brutal honesty and would offer to give him an actual answer, but we all know that would never happen in a million years.

"Is Apple a good investment," he asked. "What about Healthcare right now? My friend just made a killing on this Biotech stock, it doubled after the FDA approved a trial."

Should you buy Apple?

People talk to each other about these things. But these are not investments; these are trades. And trades are the same as betting in Las Vegas. Trades give investing a bad name. Trades also remind people why they should stick to their day jobs and let financial advisors, like me, filter out the noise and create actual investment portfolios to help them achieve actual financial goals.

Should you buy Apple right now? I don't know. Maybe. Just because you own an iPhone doesn't mean you are the world's leading expert on Apple's forward earnings projections or global competitive landscape.

While this friend probably meant well, sometimes this "investing advice" can be worse than listening to prognosticators. It's often easier to dismiss some random, famous television or radio show personality. When an investment idea comes from a peer, it typically holds much more weight.

Sugar isn't always sweet

Acting on investment hearsay from a peer is like asking your doctor for the same diabetes drug prescription your friend just started taking. What if you're not even a diabetic?

That statement should sound silly. But that is what taking random, baseless investment ideas from someone with an entirely different financial background is like. This distinction is one of the most important I try to get across to people in their 30s: know the difference between trading (also known as gambling) and investing. Know where your investment advice is coming from.

What about the stories of people you know, or in your network, who made a ton of money online trading? Or so they say. Maybe they trade their accounts all day long or maybe they just pick a few stocks from time to time. Either way, from my perspective, when the lure of getting in early and jumping out before things tank sounds too good to be true…it usually is.

Starting an online brokerage account and buying some stocks that you have had your eye on is okay. It's okay in moderation. But be sure to look at this account as fun money and do not include it in your overall financial planning. You cannot expect to retire and fund your life from this account. No way.

The cost of early trading success

I have a client who, at one time, had a fully diversified portfolio that fit his objectives and risk tolerance. But he had this itch; he had his eye on a stock. He asked me if I thought it was a good idea to buy it. After going through my lesson on the difference between trading and investing, he decided to buy into it with $2,500. This was money we knew he could afford to lose so I didn't object. The company he bought was OfficeMax.

OfficeMax was the smallest of the three main office-supply companies. (At that time, Staples was the 800-pound gorilla and Office Depot held second place.) He read some article somewhere along the way, or talked to a friend on the golf course, or some other cliché location, or wherever else people obtain their investing ideas. For about a year, OfficeMax's stock bounced around, but didn't really go anywhere.

Office Depot then submitted an offer to acquire OfficeMax and the stock doubled overnight. This was not good news. You might wonder why making money on this trade is a bad thing. Shouldn't I want my client to succeed? His first trade was an unusual success. The problem is he was going to think his investing prowess led to profits. In reality, it was all luck.

After cashing out and with newfound confidence, he rolled his profits into the next big idea. I can't even remember what it was, but it was a total loser. All the profit was gone on this next trade along with a big portion of his initial $2,500. Ouch. This piece of humble pie was exactly what an aspiring trader needed to understand the importance of real investing.

Planning for your future

Real investing is the act of creating a strategy that will help you achieve a financial goal, whatever that future goal might be. To save for college, retirement or financial freedom, you need to invest—not trade.

You might find yourself at a golf course clubhouse or wedding reception with this client of mine. If the conversation leads to finances, he will be happy to share his OfficeMax success story.

What he won't talk about is how nearly all his money is in a boring long-term diversified investment strategy. He also won't tell you how much he lost on the next two or three trades, going into the negative.

You might leave the conversation extremely interested in his hot stock tip. It could be the next Amazon. Or it could be the next Pets.com. Again, these short conversations should be taken with a grain of salt. Just like an iceberg, people will only see and talk about the surface. Underneath the water (or behind their financial curtain) could tell an entirely different story.

Remember, stock investing involves risk including the loss of principal.

Being too conservative

Young investors used to invest their money as aggressively as possible. Often too aggressively. They would say to themselves, "I'm young and I can afford to take risks. I have lots of time ahead of me." Now I have noticed the pendulum swing in the opposite direction when I talk to younger people. I see far too many people lose too much money by being conservative with their investments.

How can you lose a bunch of money if you are investing conservatively? By losing future potential earnings. Missed opportunities can cost just as much, if not more, than investing in the wrong things. By not investing your money, or sitting on the sidelines as it is sometimes called, your money is guaranteed to lose because of inflation.

Let's say you have $50,000 saved in your IRA. You have the money sitting in a short-term bond fund, or worse, a money market fund. As the years go by, your $50,000 will still be $50,000 and you sleep well at night knowing your money is "safe." However, you will wake up one day and need to spend that $50,000 of IRA savings.

Earnings success

Over the course of a few decades, you slowly see the cost of products and services increasing. Groceries that cost you about $150 a week now will at least double to $300 a week. Postage stamps probably won't exist anymore, but if they do, they will probably cost $2 each. Health care will cost roughly a bajillion dollars. You, however, still have that same $50,000.

Now, what if you invested that $50,000 at the age of 35 in a balanced portfolio that hypothetically earned 6% returns on average until you retired at the age of 65? Your money would have turned into $287,000. You would have five times more money by investing in something moderate than just putting money in cash. What if you invest your money and then the market drops in half right before your retire? Well, if your $287,000 dropped by 50%, then you're still left with roughly $143,500. That amount is far ahead of the $50,000 the non-investor would have for her retirement.

Turtle versus the hare

Investing is like the story of the tortoise and the hare. Investing too aggressively is like the rabbit. Investing in a well-balanced and diversified portfolio is like the turtle. Hoarding cash is like the rock that is still sitting at the starting line of the race.

We can trace this aversion to risk back to 2008. The market declines of 2008 explain why this risk profile for younger people has shifted so dramatically. If you are in your 30s, then one of the first market experiences you can remember is the huge market drop of 2008. You probably didn't have much money invested in the market, but I'm sure you heard plenty about it from your parents, aunts/uncles, older bosses, etc. It was certainly the main story on the news for weeks and months.

At that time, when you were subconsciously absorbing information about investing, the only thing you heard was how everyone was losing all kinds of money by investing in the market. That information had a direct and lasting impact on so many younger people. The assessment is understandable, but could also be detrimental to your overall financial planning and achieving your goals. Simply put, you shouldn't take too many unnecessary risks. But don't be so risk-averse that you miss out participating in one of the largest wealth creators for modern times: the stock market.

Retirement planning/allocation

Often I'm asked how much stock one should own in their portfolios for their age. This question might seem easy to answer, but it really isn't. That reality probably explains why I get asked it all the time. Try asking a doctor how many miles you should run each week. He'll probably ask a couple questions first. Are you pregnant? Do you have a heart condition? Have you had a knee replaced?

On the surface, all 30-somethings might be able to invest in the same way, but when you dig into the nuances, the reality is more complicated. I'll do my best to offer some guidelines, but be sure to consult with a qualified professional when crafting your own investment portfolio.

Many formulas and guidelines exist for what your stock-to-bond ratio should be through the different phases of your investing lifecycle. When you are in your 30s, you may consider owning a majority of your portfolio in diversified stocks. That does not mean you should own 80% of your portfolio in one specific stock. It also does not mean you should just invest in the S&P 500 and call it a day. Lots of different types of stock are available to own — large and small, domestic and international. Even international can be broken down further into developed and emerging markets. And on and on.

Avoiding "home bias"

At some point in history, the U.S. was an emerging market country. We had vast natural resources and untapped potential. Around the middle of the last century, let's say the 1950's, the USA pulled everything together and became one of the world's greatest superpowers and an economic powerhouse. I don't think our nation's best days are behind us, but our location and predisposition to investing close to home can sometimes get in the way of a truly diversified approach.

Some experts say U.S. investors can be prone toward a "home bias" when it comes to investing. A lot of U.S.-based investors put all of their money into U.S.-based investments. Money and profits are not as familiar with borders as with humans. Somewhere on this large planet is a country or region where the growth potential is as tremendous as it was last century for the U.S. Put another way: it's the 1950's somewhere else in the world right now.

If you invested in the S&P 500 Index Fund because someone told you it was cheap and the five-year returns look great, then it's time to look at rebalancing your account. As you mature in your 30s, it's also time to mature your portfolio. Maybe you still act like you're 18, but it is time to invest your account more like a grown up.

Building on a foundation

I met with a couple recently who have been, and continue to be, excellent savers. Jennifer and Nick were in their mid-30s, and after sitting down with them, I saw they had a great foundation for their finances. Both have been putting money into their company retirement plans. They had accumulated roughly $300,000 between their two company plans. They both made good incomes. (Don't be discouraged if you're in your mid-30s and don't have $300,000 in a 401(k) yet. Also, don't feel like you're on Easy Street if you have more than $300,000 in a 401(k) either.)

Remember, the Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Blank stares

When I asked how they allocated their retirement account, they offered me blank stares. After thinking about their allocation for a moment, they told me they picked the investments with the best five-year and 10-year performance numbers. They were long-term investors, after all. I find this answer to be one of the most common when first sitting down with people. I bet those reading this book are nodding their heads in agreement with this strategy.

Here is why you do not want to invest this way. If you look at how things have performed over the past five or 10 years, and pick the best, then odds are you a picking things that are at their all-time highs. When an INDIVIDUAL INVESTMENT (like a sector or asset class, not a broad market investment) is at a 10-year high, then I would be seriously cautious about how it will look over the next five or 10 years.

(Skip ahead to the 70s and Over chapter to read about investing in broad market highs, which is very different than specific sector highs.)

Praying for a comeback

For example, if you rebalanced your portfolio in 1999 using this strategy, guess what investments you would gravitate to? Technology. Add in some Biotechnology too because you were diversified (or so you thought). Guess what some of the worst performers were over the next five or 10 years? Technology.

The difficult part of investing is putting money into things that are out of favor and waiting for them to make their comeback. That approach does not suggest investing in Lehman Brothers or Enron, as they dropped because they had so much rebound potential. It means that you should not dismiss an investment option just because it had a few rough years. If anything, do a little more digging and see if it is near the bottom end of its investing cycle.

Taxable savings strategies

For Jennifer and Nick, we rebalanced their 401(k) allocation and moved on to their non-retirement savings. They had $200,000 in cash. It wasn't bundles of $20 bills stuffed in a mattress, but still pretty close. They had it all in cash in a savings account, earning a whopping 0.1% interest. That interest contributed $200 of additional earnings in a year.

This money wasn't from an inheritance or lottery windfall or the like. It was accumulated by living under their means for 15 years. They didn't start out thinking, "We need $200,000 in cash to feel comfortable." They started with trying to build a Rainy Day Fund of $20,000. Once they got to $20,000, they really didn't need to use any of it. They realized that maybe $50,000 in that Rainy Day Fund was the real number in savings they needed to sleep at night. Then once they got to $50,000, they remembered how much time and effort it took them to get to that point. They kept their saving momentum going and they saved $100,000. Then $200,000.

Sacrificing to save

They built this savings one missed super sale and one missed power tool at a time. This money represents all the sacrifices they had to make to accumulate it. Instead of driving around in a nicer car or going on fancier vacations, they saved.

I find people have a much deeper emotional connection to money saved outside of retirement accounts. People in their 30s view retirement accounts as extremely long term. When a company is matching your contributions automatically, people tend to have less of an emotional connection to that retirement account.

Non-retirement cash savings is different. Because they did without things, this money represents the smaller house, older cars and fewer vacations. In the case of Jennifer and Nick, all of these decisions added up to an account of $200,000.

Whether someone accumulates $20,000, $200,000 or $2 million—it doesn't matter. When people have a large amount of savings built up outside of retirement accounts, they all share the same concerns:

1. Wanting access to the money, in case it is needed.
2. Knowing the money should be invested in something, but afraid of losing it.
3. This money is more important to me than my 401(k).

Considering Emotions

Because Jennifer and Nick were afraid of a big loss and understood that investing carries risk, we planned to tiptoe into a conservative portfolio. They would still keep a sizable amount in cash and invest the rest. For them, and this approach won't work for everybody, we decided to invest in a split between stocks and bonds. Despite their young age, this pot of money and the emotions attached to it meant a more conservative approach to be prudent.

This approach gave them options. They would keep a big chunk in cash as a line of first defense. Next, they would have a mix of bonds, which have historically been lower in volatility and generate some income. Finally, we would incorporate stocks with historically greater return potential, but which also carry higher risk. This three-legged stool worked for them and helped get extra return potential from their Rainy Day Fund.

While bonds are typically less volatile than stocks, they are not without risk. Bonds are subject to market and interest rate risk if sold prior to maturity. The bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Murphy's Law for investing cash

Allow me to offer a quick note on investing cash. No matter where the market is, your first statement will show less than your initial investment. If you take your $10,000 cash and put it into a diversified, conservative portfolio, the first statement will show less. I can't offer guarantees, but this almost always happens. Life is funny like that.

Once you get that first statement, your first thought will likely be, "I should have left my money in savings." Don't be discouraged. Investing in a well thought out and diversified portfolio is often one step backward and two steps forward. Some down statements will be mixed in with up statements from time to time. I hate to see the first statement down, but that just seems to be how the universe works most of the time.

Alternatively, some people are born with a lucky rabbit's foot. If you are fortunate enough to be one of these people, then you might get a few steps (statements) forward. Not every statement will show increases in your investments. Just like if the first statement is down, it doesn't mean every statement will be down. The bottom line for investing cash: don't let it collect dust in a savings account. Don't get too low with the lows or too high with the highs.

Starting a family

Many people start building a family in their 20s and 30s. I am fortunate enough to have children of my own. It is funny how life changes and the things I'm concerned with now were nowhere on my radar years ago.

When you are single or newlyweds, you think you are so busy. And you likely are. But when you throw a child into the mix, you look longingly back to the free time you had just a few years ago. You think to yourself, "Geez, I thought I was so busy all the time back then, I had no idea what busy was." At least that was my experience. Then we had our second child (with less than a year and a half between births).

Now I look back at how easy it was having one child and how much free time we had as a family of three. I'm sure some readers have more than two children playing sports and going to different schools. They are reading this book and thinking to themselves, "Joe, you don't have the slightest clue what busy really is!" The point is everyone is busy. However, busy has different variations. Different things in life keep us busy at various points. It just so happens that in your 30s, busy usually comes with starting a family.

First things first

A direct correlation exists between increasing responsibilities and less time availability. With building a family comes the added responsibilities and pressure of making sure your significant other and the little ones are taken care of first. When clients tell me they are expecting a child, the first question is almost always about starting a college savings plan. A good thought, but something is more important and less exciting than saving for college expenses. The first question they should ask is, “Do I have enough life insurance?” Followed by “Do I need a will?” College is third on the list.

I can see how most people want to talk about college savings first. People would rather think about how to get their child through college versus what happens if Dad or Mom isn’t around to see them graduate. However disturbing that thought is, I can assure you that it is more disturbing to work with clients who experienced a loss and were not properly prepared for this unfortunate event. No matter how unlikely it is for a younger person to pass away, it can happen. The devastation of a premature death is far greater than not saving enough for college. I have seen it firsthand and it is one of the most difficult scenarios to handle as a financial advisor. I struggle to even imagine it, being a father and a husband myself.

The following topics are important when planning a family:

- Life Insurance
- Wills/Estate Planning
- College Savings

Life insurance

Life insurance is an important component of most effective financial plans.

Why you need it

Life insurance is one of the few things that you pay for and hope to never use. Life insurance is somewhat like a fire extinguisher. I would venture to guess that life insurance probably takes up the same amount of mental real estate as the expired fire extinguisher sitting underneath your sink right now. Or worse, you don’t even own a fire extinguisher.

I won’t spend much time driving the point home of why people need life insurance, but I will say this: If you are on the fence about getting a policy or increasing your coverage, just pull out your phone and look at a family picture. Now picture your widow/widower in my office as I tell them what options they have now that you are gone. How do you want that conversation to go? Do you want them to leave the meeting at ease? Do you want them to have financial stress on top of the grieving process? Well, now you know you need coverage. You might already have some insurance, but you don't know how much insurance is enough.

Let's start with how much, and then discuss what kind of life insurance you need to own.

Determining how much life insurance an individual needs can be addressed in a variety of ways. In this chapter, we are going to assume that the purpose of the insurance is for family protection (not estate-tax planning). Insurance is simply the guarantee of compensation for a specific loss. In this circumstance, the specific loss is the future wages of the person being insured.

Protecting the income stream

First, the more a family depends on the income of an individual, the more insurance is needed to protect that future income stream. That need is greater earlier in life because there is more future income ahead of the individual. Second, when a family is younger, it has few, if any, assets. The older you get, the more you have paid down debts (hopefully) and the more you have saved and invested (again, hopefully).

Some people even get to a point where they are sufficiently self-insured, meaning that if the person's income stops, the family would survive just fine since there is a big enough pot of money and resources from which to draw. A couple whose children are out of college, who have saved a retirement nest egg and have a house that is almost paid off, does not have as much need for life insurance. They might not have any need for it, in fact.

When you are in your 30s and have not won the lottery (Powerball or genetic lottery), you are in the beginning stages of wealth accumulation and the beginning stages of mortgage/loan payoff. If you went to college, you probably still have some student loan debt hanging around. Although many ways can be used to determine how much life insurance you need, here is a super simple, yet highly effective way to determine your coverage needs.

How much do you need?

This question is at the crux of the issue.

If you earn an income:

How much income do you spend after taxes and how many years does your family need that income? Let's say you earn $100,000 a year in salary, but when you take out savings and taxes you spend roughly $50,000 a year. If your surviving spouse needed $50,000 a year, what should be the starting portfolio size? If we use an aggressive distribution percentage of 5% (most would recommend 3%-4%) then $1 million would be needed for us to draw out $50,000 of annual after-tax income replacement.

That amount fails to consider future college costs for the children. You can't predict the number of children you're going to have or the types of colleges they might attend. I would say about $500,000 gets us in the ballpark. That might sound like a lot…because it is. Keep in mind, however, we are talking about future college costs.

So the total amount of life insurance coverage would be $1.5 million. To most people, that amount sounds like a lot of money, but spread it out over 20 plus years, with one or more kids, and it really is not. If the after-tax/savings income is double, or $100,000 per year, then the income replacement coverage would need to be about $2 million plus another $500,000 for college expenses. Keep in mind that each $1 million of life insurance coverage equates to roughly $50,000 of after-tax income replacement. I cannot make it much easier without getting stuck in the weeds of details.

If the couple has inherited $500,000, then knock that off the total amount of life insurance needed. Or if they cashed out of the newest tech start-up with a $1 million check, reduce the income replacement amounts accordingly.

If you don't earn an income:

Do you really need life insurance coverage if you are a stay-at-home dad or mom? Absolutely. How can the primary wage earner continue on their career path or earnings ability without your contribution to the family? The value of a stay-at-home spouse starts at $250,000 and goes up from there. How much would it cost to send the children to daycare every day? If that stay-at-home spouse died, how much will the career earnings of the surviving spouse be negatively affected? Just because you don't contribute in the same monetary sense as an income earning spouse, you still have a huge need for life insurance coverage.

What if you never have children? The need for life insurance decreases. If your wife is earning the big bucks and you live a lifestyle according to that income, what are your expectations if she were to die? Could you afford the mortgage? Would you want to live in the same house? Would you be just fine?

With a no-children scenario, college costs or daycare costs need not be considered. This question is tougher to answer, but it boils down to the same formula. How much income should be replaced? How many multiples (or factions) of $1 million to get $50,000 per year would be sufficient?

What kind of coverage should you get?

All kinds of insurance policies are available from a host of companies. You may be able to obtain good life insurance policies through your employer (although in most cases I wouldn't and I'll explain why later in this chapter). You can respond to some random solicitation letter. You can "call the number on your screen now and talk to a qualified life insurance specialist." You can buy a term policy or you can buy a permanent policy. You can buy a policy that has savings built into it or buy a policy with no savings attached. You can choose to do nothing because the many choices hurt your head. Just like the fact there are no bad investments, there are no bad insurance policies. Some just fit better than others.

The two main categories of life insurance policies are term insurance or permanent life insurance.

Term insurance through work

Term insurance will provide coverage in exchange for paying premiums for only a certain period of time. A lot of people work at bigger companies that offer access to term insurance through work. You typically buy a multiple of your salary and you pay the premiums from your paycheck. Some employers even subsidize or pay for it fully. This insurance is easy to apply for and typically does not involve any kind of health questions or underwriting. This policy offers convenience and allows people who would not typically buy life insurance on their own or might be deemed unqualified for a life insurance policy the opportunity to obtain coverage through their employers.

Most people I meet with typically get three to five times their annual salary in coverage, which is typically lower than they should. The price of the policy usually follows age bands, so as you get older the premiums automatically increase. Even though this policy is quick and easy, it does have some drawbacks.

The first of the problems with using life insurance from your employer is that the insurance isn't always portable. What happens if you have coverage through work, but you get laid off? Or what if you find a better job offer with a different company and the new company doesn't have a life insurance program?

If you have a young family, you cannot afford to go uninsured for a period of time. Said a different way, your family can't afford to have you uninsured for any period of time.

The second problem is when you buy insurance through your employer, you are a part of a pool of employees with all kinds of different health conditions. I'm not passing any judgment, but if your office neighbor is 100 pounds overweight and smokes two packs of cigarettes a day, he is included in the pool of lives that the insurance company is required to provide coverage to. Do you think your neighbor brings the average cost of coverage down or up? Up, big time. The point is if you are in average health to better-than-average health, you could potentially qualify for a much lower cost life insurance policy on your own.

Projecting the odds

When insurance companies determine the price for an employer-sponsored life insurance product, they make projections on the likelihood they have to pay a claim (you die). If you buy coverage on your own, the insurance company may lower the cost of coverage if you are healthy and have no family history of catastrophic health events; you pose little risk to them so they lower the price of the coverage.

The third problem with employer-sponsored life insurance is that coverage is typically age banded. Every year you get older, or perhaps every five years, the cost of coverage automatically increases. The older you get and the bigger the salary/amount of coverage, the more your coverage will cost. Many workers do not think about these increases because they signed up for insurance years ago and it's paid through their paycheck. Out of sight is out of mind.

People don't look at their paychecks anymore, just the bank account to make sure their direct deposit hits. If you have a term insurance policy from work, check your pay stub and see how much you are actually paying.

For these reasons, a work-based life insurance policy may not benefit you. It is not portable, probably costs you more than what you could get on your own, and the cost automatically increases over time. Who would want this policy? Your office neighbor who smokes two packs a day for one. He is a great candidate for the work-based life insurance policy because he might not qualify for life insurance on his own. He might fail the physical exam necessary to obtain the coverage. Or if he did qualify, it might be prohibitively expensive. To be fair, you never know what someone's health situation is and insurance companies reject people for life insurance policies for a ton of reasons.

Term insurance on your own

The other option is to get a term policy on your own. If your employer doesn't offer a life insurance benefit, getting a policy on your own might be the only option available.

With a private term policy, the length of coverage is chosen when you obtain your policy. Common lengths are five, 10, 15, 20 and 30 years. If you are a young dad or mom and trying to figure out the length of the policy you should apply for, it's typically best to obtain coverage for a longer term. The price difference between a 20-year term policy and 30-year term policy for someone in his or her early 30s is not all that much.

The premiums for a term life insurance policy are fixed for the duration of the policy. If you pay $750 in year one of a 30-year term, by the time you are in the 30th year, you will still pay $750 a year. The way premiums are calculated is a function of the age in which you apply along with the medical rating the insurance company offers you.

To determine the medical rating, the insurance company will typically have the applicant complete an application, undergo a medical exam, and submit driving records and medical records from your doctors. You should mention any prior health issues and you should always be honest when completing the life insurance underwriting.

Full disclosure

Always disclose a trip to the emergency room or a medical condition rather than have the insurance company find out about it through medical records. They will then start to ask what else you might be hiding and they may decline coverage. Worse, if you are covered and they find out you lied, your policy may be deemed invalid. The most horrible of all potential outcomes is…they deny a claim. This means you died and the insurance company says they won't pay your family. Don't risk it. Just be upfront with your application.

A huge benefit of term insurance is its portability. No matter where you work, your coverage is not affected. If you have held 10 jobs in five years, your private term insurance is unaffected. Just keep paying your premiums and you are fine.

Once you finalize your policy, the insurance company cannot come back later and increase your premiums. Even if you have a health event that makes you a higher risk. For this reason, you should apply for coverage as early in life as possible. People typically qualify for better premiums the younger they are because they are typically healthier.

The biggest drawback, if you can call it that, to a term life insurance policy is that you pay in for many years and likely get nothing for your money. I would like to put this in other words. You pay for life insurance and don't die prematurely. To me, that is one for the win column, but I understand people don't like the idea of putting money into something and getting zero back. However, if you own a home, you need homeowner's insurance. If you drive a car, you need car insurance. You probably hope to never make a claim on either of those policies, right?

A return of premium option

For people who just cannot stand the thought of "losing" money on a term life insurance policy, consider what is called a return of premium option. The insurance company will charge you more for the insurance and then return your premiums at the end of the policy. What's the catch? Opportunity cost.

The extra money you pay into the policy is what the insurance company invests and profits from. Basically, you provide them with a no-interest loan of your money. While you do get your money back, you may do much better investing the difference in premiums between the traditional term insurance policy and the return of premium optioned policy. The other benefit to investing the difference is you have access to that money throughout the length of the policy. If you choose the return of premium option, you are locked in and can't access any of the premiums.

The bottom line with term insurance is that getting a policy on your own is typically best, but forgo the return of premium. Get a little bit more coverage than you think you need, get it a little bit earlier and choose a longer policy term. There is no cost to apply for term insurance. You aren't locked into anything until you get an offer and make a premium payment.

Permanent life insurance

Permanent life insurance has more variations than term insurance. I generally don't recommend permanent insurance to people who are looking just to protect income loss. Yet we should still explore some of the main types of permanent life insurance policies. The main three are Whole Life, Variable Life and Universal Life.

The main benefit of the permanent policy is that it is permanent, and as long as you pay enough premiums—it will pay a death benefit. The main drawback to the permanent policy is that it is permanent.

"Huh? But I thought that was the positive?" It's a double-edged sword. The drawback is peoples' lives are ever-changing. You have no guarantee the high-paying job you have now is where you will be working in 10 or 20 years. Your life could change dramatically, and your income could go up or down. Expenses also increase and decrease over time. But that expensive permanent policy is always there (as are the large premiums associated with it). The risk with a permanent policy is that when your life changes, a policy that made sense in your 30s might not fit years down the road. Any deviation from the plan with your permanent policy erodes the potential benefit of purchasing it.

Let me explain the pros and cons of each type of permanent life insurance, but let me also recommend that you consult with a life insurance professional before making any buying decisions. Let the professionals weigh the pros and cons for YOUR situation before moving forward with an insurance plan.

Whole life insurance

Whole life insurance policies were quite popular in the 1980s and 1990s as interest rates were much higher than they are now. The premium is higher in a whole life policy because part of the premium pays the insurance component of the policy and the rest goes to the savings component. The savings component has a fixed-interest dividend. That dividend tends to pay higher than CDs, but doesn't offer Federal Deposit Insurance Corporation (FDIC) coverage, meaning you bear a slight risk. The dividend can also change, but it usually has a minimum dividend payout amount.

During years when higher interest rates were the norm, the dividend interest was much more attractive. Insurance agents used to run illustrations where the dividends would earn enough to pay the insurance premiums after just a few years. They would say the policy will pay for itself in short order. Sounds good, right? Well, in theory, it sounded great. In reality, interest rates dropped. Many people are still making premium payments on whole life insurance policies years beyond what they expected.

The savings piece takes a long time to grow to a significant balance in a whole life policy. Whole life can be rigid in the structure of premium payments and policy design. A lot can happen in that time. The savings does grow tax deferred, unlike savings in a typical after-tax portfolio, which is a positive. You can take loans against the cash value of your policy, which isn't taxable unless you take more out than you put into the policy. The downside is these loans are charged interest, where the interest rate is typically higher than your average home equity loan rate, but lower than credit cards or other unsecured credit sources.

Whole life usually fits better when its role in a financial plan is that of a fixed savings component with some tax advantages, and with the added benefit of a death payout.

Whole Life Insurance Pros: fixed interest dividend, savings accumulation, tax advantages

Whole Life Insurance Cons: very expensive, not very flexible

Variable life insurance

Variable life insurance is similar to a whole life insurance policy in that it has a savings component alongside the life insurance coverage. The life insurance component costs less the younger you are, but starts to rise as your age increases. Part of your premium goes to a savings piece that is invested in sub-accounts similar to mutual funds. You can be aggressive, moderate, or conservative in how you allocate these funds. The thought behind a variable policy is that your investments can offer better returns than a fixed investment and the growth you achieve over the years helps pay for the increases in the life insurance component.

The positive to variable policies is they may offer you the same life insurance coverage for lower costs than other permanent policies. This ability is based on IF you can generate a decent return in the sub-accounts. That is a big IF. In reality, I have seen only a few variable life insurance policies perform the way they were designed.

The negative is you cannot control the market; by investing your money, it introduces a level of risk that usually doesn't fit well with life insurance. Life insurance, in my humble opinion, is best when it offers real guarantees. Introducing market risk to what is typically one of the most conservative parts of your financial plan creates the potential for too much to go wrong.

Variable life insurance is probably the best fit if you have lots of cash flow, do not mind taking risks and want to defer taxes on growth in the portfolio. If that's your scenario, I would argue for other options that might be a better fit (which I'll explain in a later chapter).

Variable Life Insurance Pros: potential to generate higher earnings, cash value accumulation

Variable Life Insurance Cons: savings growth not guaranteed, still much more expensive than comparable term coverage

Universal life insurance

Universal life coverage is similar to whole life insurance, yet it offers a little more flexibility. With this coverage option, you can change how much your premiums are and any excess premiums you pay beyond the cost of your insurance cost is added to the cash value. If you have variable income and some years are better than others, you can put more away in flush years and add less in the lean years. Let's say you are in sales and you have a HUGE year with a big bonus. You can either renovate your master bathroom or contribute more to your life insurance policy. Which would you realistically pick?

Behavioral finance is the study of how people react to financial decisions. From all the years of working with everyday people with everyday decisions, I can say that few people decide to overfund life insurance. They are more inclined to add to savings or a liquid investment portfolio, but not a life insurance policy.

Some insurance companies offer this type of policy with a "no-lapse" option. This option will set a fixed premium and extend coverage much further than a term insurance policy. For example, if you select this option and make the required regular premium payments, the policy will offer coverage to age 125 (sometimes longer). While a universal life policy with this no-lapse option is different than a term policy, they look similar.

Universal Life Insurance Pros: this policy with a no-lapse option can offer some of the best coverage per dollar compared to other permanent options and has strong estate planning potential.

Universal Life Insurance Cons: cost of coverage is higher than term insurance

My opinion on life insurance

I believe at this stage of life, your 30s, the purpose of life insurance is to insure lost income if someone dies prematurely. When you start adding in options and making coverage permanent, it increases costs while significantly reducing flexibility. Unless you have an estate-tax issue or you have your heart set on leaving a legacy to someone, stick with a term insurance policy. If you qualify for your own personal policy, buy as much as you need. If you don't qualify for an individual term insurance policy, then try to find the best coverage you can through your employer.

Wills and trusts

Entire books have been written on the subject of wills and estate planning. While I'm not an attorney and do not generate wills for my clients, I do have some thoughts on the subject based on what I have seen in my practice. If you haven't had a will drafted, you actually do still have one in place. The state provides one for you. When you die without a will you created, it's called "intestate." It means the state in which you reside will decide where your money goes. If you have children, the state will determine where your children go, too.

This situation usually creates a major headache for those left behind, who must try to work with the courts and financial institutions in an effort to settle matters after you are deceased. The concerns and desires of the state may not match your own. Thus, it behooves you to declare those intents in a will as soon as possible. Go to a qualified attorney and follow his or her advice regarding setting up your will and medical directives. These conversations are not fun to have nor are the thoughts pleasant ones about how and when to "pull the plug." However, I would rather make those decisions for my family than leave it to the state.

Some attorneys will suggest creating trusts to manage assets. In certain cases, tangible benefits can be derived from this approach. By and large, I find trusts to be cumbersome and largely wasted. I have seen people pay thousands of dollars to generate various trusts, then they never fund them or update account titles to use them.

The trusts were fantastic, but never implemented.

Work with a competent attorney to draft a proper Will, Advanced Medical Directive, and Durable Power of Attorney documents. Suggesting a fair price is difficult because different attorneys offer different services. A fair price could also differ based on where you live. The young couple living in downtown Manhattan will likely pay much more than the young couple living in Billings, Montana. Meet with multiple attorneys and go with the one you trust the most. Whatever the fee is, that's the cost of sleeping well at night.

College savings options

When deciding where to save for your child or children's potential college expenses, I frequently hear two main questions from my clients: "How much should I save?" and "Where should I save it?" How much to save is the easier question to answer. Save what you can afford.

Many people like to focus on the belief that college will cost $100,000 to $250,000, or more per child. They probably aren't far off. Instead of focusing on some calculation that says you need to save $1,000 month or some number you might not be able to afford, think about saving for school in a different way. Save what you can afford.

Do not leave the math to what an online calculator says you need to save. We live in the real world where not everyone is able to save for future college expenses, life insurance, retirement savings and a Rainy Day Fund. If you can afford to set aside $50, $100 or $1,000 each month, then use that amount to start. As expenses fall off (which never happens) or income increases (more likely), then you can pump up the amount you put away for college costs.

Remember one important piece of advice I offer my clients when they are considering how much to save for future potential college costs: there are loans for college; there aren't loans for retirement. Your priority should be to fund your retirement savings, Rainy Day Funds, and estate planning first, then work on setting money aside for college.

Think about it this way

When your children are older, they probably are not going to – and do not want to – fund your retirement. Besides, not every child goes to college. Going to whatever college that their 18-year-old heart desires may not necessarily be a good life lesson for them to learn. Allowing them to choose a college they, or you, cannot afford reinforces the notion that money grows on trees and they can have anything they want. That reinforcement is even worse if the cost to pay is your unsecured financial future.

Next comes the decision of where to save this money for college. The main options of where you can save the money is in a custodial account in your child's name, in a state sponsored 529 College Savings Plan, or in your personal accounts through your own saving. This decision has several factors to consider, the most important one being, and the one most don't consider: control.

Custodial accounts

The least attractive option is saving money into the child's name, which is called a custodial account. Buying savings bonds and/or opening a savings account in a child's name is old-school. Savings bonds typically offer lower earnings compared to other options, and cash savings usually have no real return potential. They are best for protection of principal. Yet this approach, a carryover from a generation or two ago, remains popular.

The limited return potential of a savings bond and savings accounts is no match for the constant increase in college tuition costs, especially when those costs are rising at a pace close to double inflation. Equally important is the money you save into a custodial account in your child's name is money over which you have just lost control. Once the money is theirs, it's theirs.

In a custodial account, you can invest the money and open accounts on your child's behalf. But, when he or she reaches the age of majority, the money becomes his or hers to do with as he or she wishes. If your child wants to take the money you saved to pay for college—excellent. If he wants to take the money you have saved and buy a Corvette, then you have no control when your child drives off in a car you wish you could afford.

You also cannot take back the money you put in your child's custodial account to use in case of an emergency. Once the money hits your child's account, there's no going back. The realization of this situation also hits hard when you fill out college Financial Application for Federal Student Aid (FAFSA) applicant forms. When applying for aid, custodial money in your child's name counts against you worse than money in your own account or 529 account money. The reason for this is the money in a custodial account for your child has a dedicated purpose and your child owns it completely. The government determines your child qualifies for less aid since he has money to pay for school. The government views your college-aged child as an adult, even though he might not act like one.

529 College Savings Plans

The situation is different if the money is invested in a 529 College Savings Plan. As a parent, you retain control over the money. You can even change the beneficiary of the account at any time. For example, let's say you have two children and the first one gets a full scholarship to college. She no longer needs any money from her 529 plan. You can replace your first child on the 529 plan with your second child. Perhaps you combine 529 plan money into one account and use that to pay for your second child's college education. If done correctly, no penalties will be paid. There have been recent changes that expand the age ranges of use for these accounts. This widens the potential advantages.

The 529 College Savings Plans may have tax advantages, too. You may qualify for a state income-tax deduction on a portion of your contribution to the 529 College Savings Plan. Check with your state's plan. It might not really move the needle much, but it's worth mentioning.

Where the benefits really start to show is when you take distributions from the 529 to pay for school. Assuming you are paying for qualified expenses, the distributions are tax free. If your 529 dollars are paying for qualified expenses, then you skip paying taxes on principal AND gains. If you are in a high tax bracket and have large gains in the account, the tax benefit could be a huge bonus to you.

Accessing a 529 plan's funds

What if you don't need the 529 plan money for your child's school expenses after all? Maybe she invented the next Facebook in high school, or went into the military, or took up a trade. Then what? You can legally take your money back out of a 529 plan. This withdrawal can be for any number of reasons. All of the money you invested, the principal, comes out free and clear. If the account has any profits, you pay income taxes and a 10% penalty only on those gains.

While no one starts a 529 account with this tax advantage in mind, it can be beneficial to know you still have access to your money. Oftentimes the penalty is waived if a qualifying circumstance occurs. Check with your tax advisor for more information.

Investing your 529 funds is another important consideration. The younger the child, the more aggressive you might be with your investment strategy. The older the child gets and closer to needing college money, the more conservative your investment strategy should be. (Note how this approach follows the same logic as a person nears retirement age.) The last thing you want is to fully participate in a market pullback when you need to write the tuition check next month.

Each state offers its own version of a 529 College Savings Plan and there can be two to three dozen investment options. You can pick your own funds if you wish. Most states will offer a target college date option, where you calculate when your child will go to college and the investments automatically get more conservative as you get closer to that date. Most states also offer a target risk fund, but beware those options do not automatically adjust as your child gets older.

The do-it-yourself approach

The last option is to accumulate a savings and investment portfolio, outside of retirement accounts, to pay for your child or children's college expenses. This portfolio would be in your name, or jointly titled if you are married. Most people think of this account as a Rainy Day Fund. This money may be invested however you want and can be used for anything you want—not just emergencies.

This catch-all pot of money is one everyone needs to have, although this use is targeted for college expenses at the moment. Of course, that target could change if circumstances change. If you are disciplined about saving money, this approach gives you the most flexibility. For those who are not as disciplined, this approach may not be as successful as the 529 College Savings Plan.

While a 529 plan offers many benefits, make sure you do not overfund a 529 plan. Just as you create a portfolio involving a well-balanced approach, featuring many different types of investments, using different investment accounts to fund certain goals is a good idea.

In summary, as I said earlier, there are loans for school, but not for retirement. The key to any successful college savings plan is to make sure the parents are on strong financial footing before saving for college. First make sure you are contributing to retirement savings, building your non-retirement emergency funds and have the proper insurance/wills. Then add what you can afford to a 529 plan. To increase the effectiveness of these strategies, make the savings automatic and consistent.

Keeping up with the Joneses

Almost everyone in their 30s has some form of social media. Most have Facebook, a lot have Instagram, and some have Snapchat. I recently ran into someone with whom I went to high school. I hadn't seen her in over 10 years. I asked, "How's the new puppy?" I only knew she had a puppy from her posts on social media—cyber stalking at its finest.

Social media keeps us in tune with what is going on in everyone else's life. Twenty years ago I wouldn't have remembered her name, probably not her face, and would have no clue what was going on in her life. In today's society, with the advancement of technology keeping everyone connected, we know more about more people. I think social media is a great tool. Some say the shift to online is replacing human interaction, but I find the opposite is true.

With this old classmate, I was able to more quickly connect in person and get into a meaningful conversation rather than talk about the last 10 years. We haven't seen or talked in a decade, but we were already caught up.

What else is social media good for? It lets everyone know how awesomely you're doing. Did you just have a baby? Post it and see how many likes you get. Did you just get an in-ground pool? Definitely post a picture of that; maybe add a filter, too. How about a promotion? Or a new car/house? Or go on a fancy vacation? Absolutely, post it. Probably in a subtle, humble bragging way…

Picture: Girl sitting on a Caribbean beach with a frozen drink celebrating her recent promotion.

Caption: "I could get used to this!"

Picture: Guy standing next to his shiny new car

Caption: "Just picked up my new ride!" (Lo-Fi filtered picture on Instagram)

Everyone should be proud of these achievements. However, these images don't necessarily paint an accurate picture of what is going on in someone's life. Sure that frozen margarita by the beach looks delicious, but what about the $15,000 credit card balance it is masking?

"Somebody help me!"

A few years ago, a commercial featuring Stanley Johnson had him tell us about his four-bedroom house, new car and a golf club membership. He then says, "How do I do it? I'm in debt up to my eyeballs. Somebody help me!" At the time, only Stanley's closest friends and neighbors got a bird's eye view of his expensive lifestyle. Today, all 327 friends on Facebook see it.

Today's version of "Keeping up with the Joneses" appears every hour on Facebook, Twitter, Instagram, Snapchat, Pinterest and all the other social media platforms. People don't post about their credit card debt, bad investment choices, or anything else that paints a negative picture. When we look on our phones and see what everyone is up to, we have a false sense that everyone else is doing better and making more money than we are.

In your 30s you start to see more separation in lifestyle than ever before. People start making real career and life progress in their 30s. You see it as they buy up and display more than they could in their 20s.

This constant reminder that other people own nicer things and have fancier travel plans than you will make it hard to stick to your financial plan and live within your means. Your entire financial security depends on blocking out this noise. Stick to your savings goals. Buy what you can afford. Just like sticking to a diet, allow yourself a "cheat meal." When you accomplish certain savings goals then have a reward system in place. Maybe you buy yourself a new suit or purse, or whatever, if you hit your savings goal.

*Now post it on Facebook. *winking emoji**

Decisions

The 30s are a much more complicated time in one's financial life, more so than the previous decade. We often see the greatest change from the beginning of the decade to just before starting the 40s. For many, it is career and job changes, hopefully for the better. It may be a marriage, a home purchase and/or the addition of children.

This decade is important to get right because you may have little ones that depend on you and the decisions you make. It is a time when some of the financial considerations are unpleasant ones. No one wants to think about their own mortality, but we must face and plan for it accordingly.

To be on the right track, you must finish out this decade with an automatic savings plan into retirement funds and have an account to use for emergencies. If you have a family, then you also must have a will and the proper life insurance coverage.

Do your best to stay on your financial path and not to be sucked into a lifestyle inflation based on what others are doing. If you can accomplish those things in this time in your life, the rest of your financial life just got that much easier.

Disclosures

Variable Universal Life Insurance/Variable Life Insurance policies are subject to substantial fees and charges. Policy values will fluctuate and are subject to market risk and to possible loss of principal. Guarantees are based on the claims paying ability of the issuer.

This book contains only general descriptions and is not a solicitation to sell any insurance product or security, nor is it intended as any financial or tax advice. For information about specific insurance needs or situations, contact your insurance agent. State insurance laws and insurance underwriting rules may affect available coverage and its costs.

Prior to investing in any 529 plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

Buying a Car

You have a place to live and a job, contribute to your retirement plan at work and (hopefully) manage your budget. You may think about your next big decision—buying a car. I'll briefly outline some of the basic issues involved in deciding what car you should buy. The goal here is to ensure that you are not taken advantage of at a dealership and that you obtain a relatively good deal on reliable transportation.

It is important to purchase a car that fits your needs. Even though this decision is one of the bigger ones you make, it is almost always driven purely by emotion. The car dealers and their salespeople know it. They know that you are especially prone to making a costly mistake because emotions and money do not mix well.

First, find a car that fits your current lifestyle, but also can provide for your needs for the next several years. Are you a single person who uses the car to commute 20 minutes each day and who lives in the city? You probably don't need the huge SUV. Are you married and living in the suburbs? You might need a bigger car for a potentially growing family. Don't take into account just where you are currently in life, but also where your life is headed when looking at vehicles.

Rule No. 1: Do your research

When you find a few cars you like, and it doesn't matter new or used, go online and look at all the reviews. You might also want to go onto the specific car's online forum and ask current owners for feedback. These forums can be a great resource when purchasing a car (or even figuring out what is wrong with your current car). You should also test drive your top car picks and determine if you like the way they drive. Don't take any money with you; tell the salesperson you are not going to buy anything that day. They will still take you for a test drive.

How much can you afford?

This question goes deeper than what payment fits your budget. Cars keep getting more and more expensive. To keep people buying new cars, the auto industry has modified its financing options. It used to be you could finance a car only for five years. Now you can finance a car for six and even seven years.

The biggest financial mistake people usually make when buying a car is getting fixated on a payment. The dealership will come up with all kinds of creative ways to fit an expensive car into your monthly budget.

The total cost of the car is more important than the monthly payment. If you have to stretch a car payment out to seven years, or even longer, you really shouldn't be buying that car. The interest rate usually goes up the longer the loan as well, adding to your total vehicle cost.

Lease vs. buying

If you plan on owning the car for five years or less, then you might consider leasing. Keep in mind that leasing a car is generally more expensive. If you are getting a used car or plan to own the car for more than four years, it probably makes more sense to buy it. That four- to five-year range is a judgement call. I would opt for purchasing because when the lease comes up you might not want to go through the hassle of negotiating and looking for a new car. Buying a car keeps you in control of when you want to replace a vehicle.

Rule No. 2: Never pay retail

One of my clients told me in a financial planning review meeting about how she was going to lease a new car. Here is what happened: Rose was a widow and liked leasing her cars. For her, a leased car was convenient, and she never had to worry about things out of warranty or maintaining the car. She could have likely paid less overall by purchasing the vehicles, but the difference was mostly insignificant. I asked what her strategy was for the new car. Her response sent chills down my spine.

She planned to go to the dealership to lease whatever car she liked at the dealer's terms. She had conducted no research and had no plan to negotiate. I couldn't stand by and let this happen.

Off to the dealership we went, Rose and me. The sales manager informed Rose that she would have to pay $500 in repairs when she turned in her leased vehicle. They also quoted a price on the car she was interested in getting. We left without buying anything, but I knew what Rose wanted. I sent emails to the three closest competing dealerships and asked them to bid on the car lease. I wanted them to outline the initial cash needed and the monthly lease payment.

After about a week, I went back to the original dealership and told them Rose would not be paying a $500 repair bill and that they would have to beat the quote I had in writing (email) from the neighboring dealership. They agreed and were happy to keep her business.

Rose bought the car she wanted at the dealership she preferred. She saved roughly $4,000 over the three years of her lease. I told her with the more than $100 a month she saved, she could add more to her savings.

In summary, get the car you need, not the car you want. Do your research. Make the dealerships compete for your business. Leave your emotions at home.

Making an emotional purchase when you're buying a sweater isn't a big deal in the grand scheme of things. Making an emotional purchase on a vehicle that costs tens of thousands of dollars will set you back big time. Take your time and be thoughtful with this large decision.

Your 40s

Goals for this decade:

- Create and track your financial progress using a balance sheet.
- Implement a financial checklist to improve your situation.
- Learn to identify different risks with investing.
- Embrace the power of diversification.
- Review some of the top investing mistakes.

The balance sheet that starts every plan

A balance sheet is the definitive method for tracking the financial health of any organization. A balance sheet works for Fortune 500 companies, where analysts need to evaluate the company's financial standing. It works for smaller companies and it can work for you, too. The balance sheet is a simple accounting tool used not only to determine how the company is doing, but also future trends. Is the company growing, shrinking or just treading water?

Everyone who is serious about finances needs to sit down periodically to take stock of their assets and debts. Completing this process requires you to add up everything you own on the left side of a spreadsheet or a piece of notebook paper. Even if you write it on a cocktail napkin at your local watering hole, it works. The location and the type of paper doesn't really matter.

Next, on the right side of the paper, add up all of your loans and debts. The mortgage, the home equity loan, the credit cards, the student debt…everything. This exercise might be painful. It's kind of like stepping on a scale at the beginning of a diet. Think of it this way: the worse the number, the more room you have for improvement.

Finally, take the total from the left side (assets) and then subtract the total from the right side (debts), and that will be your net worth. That's the sell everything you own, pay off all the debts, and move to Costa Rica number. Here's an example of what it looks like:

Balance Sheet (Net Worth)

Assets				Debts		
Checking	$	5,000		Mortgage	$	200,000
Savings	$	25,000		Credit Cards	$	5,000
Brokerage Account	$	35,000		Student Loan	$	15,000
401k	$	250,000		Car Loan	$	12,000
Roth IRA	$	25,000				
Home	$	300,000				
Car	$	20,000				
Asset Total	$	660,000		Debt Total	$	232,000
Net Worth	$ 428,000					

Most of my clients are usually pleasantly surprised by the number. Some find the number looking back at them in the ballpark of what they expected. Very few are shocked at how terrible their bottom line looks. Some do look pretty bad, which leaves lots of room for improvement.

Take the five or 10 minutes to complete this important financial process once a year or once every two years. The goal is to see your net worth increase, obviously. This information will help you answer the age-old question, "How am I doing?"

A BIG RESULTS ACTION LIST

You can take some actions to improve these numbers. They require some thought and effort, but the payoffs can be huge.

1. Increase salary deferral to employer retirement plan.

Once a year in your 40s, you MUST increase your retirement plan contributions. Just bump the deferral percentage up by 1% each year. If you set this increase to start near the time you get raises, you won't feel the pain of increased savings as much. Most people really start to get serious about retirement planning in their 40s, and you don't want to get left behind.

2. Rebalance retirement savings allocation.

If you are like most people with a little, or a lot, of money in retirement savings, you probably haven't really looked at your investments in a long time. My guess is you get your statements once a quarter and look to see if the number is higher than your last statement. If the number is lower, you probably are saying, "I'll wait and it'll come back." If the number is higher, you probably are saying, "Okay, good, I don't have to do anything."

Odds are you haven't rebalanced your investment portfolio in some time. You probably have the same allocation as when you signed up for the plan. That allocation was probably determined one of three ways:

1. The plan defaulted your investment choices for you.
2. Someone picked the investments for you.
3. You picked the investment options with the best five-year or 10-year return numbers.

The reason most people just leave their choices alone is they are afraid of making a mistake. That fear of making mistakes keeps people from doing anything to help their retirement plan. If it's not broken, why fix it, right? Well, not updating your allocation is just like that 12-year-old hot water heater you keep putting off replacing until one day it breaks, resulting in cold showers for you and the family for a day or two. Ignoring your asset allocation can have hugely detrimental effects. Unlike a water heater that bursts, cleaning up the mess of a broken portfolio is much more expensive.

Since no two investors have identical financial situations, I cannot easily describe exactly what an allocation should be without getting to know the individuals. Would a doctor write a prescription without a medical exam first? To get your allocation in the right ballpark, try to follow what a target retirement date fund is doing. Remember that diversification is effective, but not glamorous.

3. Increase college savings.

Remember how in the chapter on your 30s, I explained that we have loans for college, but not for retirement? Well, that reality becomes even more important in this decade. Plan your savings for future college expenses carefully. Starting or growing a college savings account should be fourth on your list of financial goals. It fits behind saving for your Rainy Day Fund, putting away an appropriate amount for retirement and making sure you have an estate plan (life insurance and a will). If you haven't done those three things, you are not ready to add a college savings account to fund your child or children's college years.

If you have done those things, then the next step is probably to start or increase your college savings options. It's usually best to start with what you can afford and increase over time. If you are already contributing to your college savings option of choice, try to increase it. Like all successful investment plans, make the savings automatic.

4. Increase life insurance.

Most people in their 40s have inadequate life insurance. They either have a small-value policy they obtained when they were younger, but could not afford much more and/or they have a policy through their employer. Neither of those policies is likely to be an optimal solution to cover the potential loss resulting from an untimely death.

If you have switched jobs, you might have lost the life insurance policy from work. The insurance your parents bought when you were a child, as an investment, will not help your family much in the event an asteroid lands on your head. If you have a small term insurance policy, you should review how much coverage it provides.

My unscientific and informal polling of people I come in contact with in their 40s, leads to the following conclusion: nobody likes life insurance. And, almost no one has an adequate amount of coverage for their life at this stage. I would say less than 10% to 15% of the people I meet have appropriate life insurance and estate plans. Once you have the plan in place, you only need to think about it every five years, or so, provided you don't withstand any major changes to your situation.

5. Start/build your automated investment plan.

If you have some cash set aside in a Rainy Day Fund, great. If you don't, get working on putting some cash away for those unexpected expenses that are sure to keep cropping up. But assuming you do, you MUST build a portfolio of liquid investment assets alongside of your cash savings. This portfolio should be less aggressive than your retirement savings. Think of this account as a safety net account that you may need when unexpected expenses arise. And, until things pop up, you should give yourself the potential for earning a little bit more return on your investment than you earn in your bank's savings account.

This account should be accessible and liquid. At times, this account may lose a bit of money because the portfolio is not doing that well. No problem. As long as this portfolio is diversified, you should have several options to pick from when you need to draw money from the account for an unplanned expense. Hopefully, a few of the funds in the portfolio are doing better; that's where you go to get the cash you need on short notice.

Almost as importantly, you should link this account to your checking account and add to it on a systematic basis. Savings must occur before spending or it won't happen. If you try to save what's left over at the end of the month, it will be nearly impossible to build any kind of meaningful portfolio. Countless books and articles, and advisors, preach saving first and spending second. They are right.

6. Review expenses.

At least once a year, you should sit down with any members of the household that have a hand in the day-to-day finances and review expenses. I'm not suggesting you take your child out of private school, drop down to a one-car family or sell the family dog to save on veterinarian bills. What I am suggesting is you cut out the expenses that don't bring value into your life.

Do you subscribe to Netflix DVDs and you've held onto the same movie for three months now? Do you belong to an expensive gym that you haven't visited in six months? Do you order carryout instead of cooking at home every night? Whatever it is, if you are not enjoying it or getting value from it, get rid of it. If you love going to the mailbox twice a week to see what Netflix DVD came or you go to the gym five times a week, then keep doing those things. Find out what it is in your life that you don't need and purge. Taking this action on a regular basis will help you focus on things that are important to you, declutter your life and, of course, help you save more money.

Investment risks

Whether you are starting into your 40s or deeper into them than you care to admit, you are most likely in possession of more money than ever before in your life. Assuming you are fortunate enough to keep increasing your financial position, you face a new challenge that didn't mean much earlier in life. That challenge is investment risk.

Taking risks are not a big deal when you have little or nothing to lose. In your younger years, you think about things differently and can take a chance on working for a small, but growing company in the hopes your opportunities will grow as the company grows. Or you can relocate to a different part of the country without much concern. You can invest all of your money into some kind of biotech stock that is developing robots that fight cancer. What do you have to lose?

All of a sudden when you are in your 40s, the amount on your 401(k) statement gets bigger than you thought it would. The monthly movements in the market don't translate to \$10s or \$100s up or down when you look at your portfolio statements. The movements are now in the \$1,000s or \$10,000s. Those kinds of shifts have a bigger psychological impact – and a bigger potential impact to act against your best interest.

Accept the rollercoaster

The losses from the high growth fund you didn't mind so much when you had $10,000 will feel a little differently when you have $100,000 or $250,000, or more in the instrument. Volatility is not a bad thing; it is necessary in investing. Basically, that volatility is the cost you pay to potentially achieve higher rates of return than guaranteed interest.

Nothing in life is free. So if you want a portfolio free from these ups and downs, you pay for it with lower returns. You may also pay for it with missed opportunity costs and a smaller nest egg in retirement. If you want reasonable returns, then you are going to have to pay for it with the emotions of seeing investments that do well some months and pull back in other months.

When you are younger, you typically have more of your investments in funds that have bigger price movements. As the money in your portfolio increases, concern about risk also increases. Add it to the list of all the other things you have to worry about.

To help you sleep a little better, perhaps, I will try to explain how best to avoid unnecessary risk and what risk really means to the average investor. Keep in mind that avoiding unnecessary risk does not mean avoiding risk entirely. Avoiding risk completely usually results in subpar results.

Mitigating Unsystematic risk

The first type of risk is the kind of risk where you own something that will go to zero. This type of risk is what most investors predominantly fear. This type of risk could do the most harm to your plans to achieve your long term financial goals. Fortunately, this risk also is the easiest risk to mitigate. Woo-hoo!

What type of investments can go to zero? Any one company can go out of business. Any one sector can have a significant slide downward and could take some years to recover. (Think of the real estate market in the U.S. after 2007.) Any one individual bond can default on its obligations and obliterate its value. These types of events are unpredictable and can seriously cripple an investment portfolio.

The way to eliminate the risk of going to zero is simple. Instead of owning one stock, own 10 or 100 or 1,000 stocks. Instead of owning one particular sector of the economy, own them all. Instead of investing in only the United States, invest globally. Don't buy just one bond or one type of bond. Simply put, diversify your portfolio and you should never have to worry about your account going to zero.

If you own a stock market index fund, for example, what would it take for the position to go all the way down the elevator to zero? All of the companies in the index would have to go out of business. No more Proctor and Gamble, no more Apple, no more General Electric, no more Amazon. If some kind of event wiped out all or most of the major corporations in the country, whatever total showed on your monthly statement, it wouldn't really matter anymore. It would take an end-of-civilization event for that to happen. The new currency would likely be water and bullets (not gold) and all the doomsday preppers would be laughing from their subterranean, generator-powered, hermetically-sealed bunkers.

Something so simple and time tested as diversification seems like a no-brainer, so why does this chapter even discuss it? Just because it's simple doesn't mean it is easy to implement and maintain.

Thinking differently

In the real world, most investors are smart enough to know not to buy high and sell low. They know you want to sell an investment for more money than you paid for it. That's about as complicated as it needs to be. If investing is so simple, why isn't it easier? The answer: emotions.

To invest profitably takes counterintuitive thinking. When you book a flight for vacation, you will likely track the cost of the plane tickets. When you see the prices start to go down, don't you get excited? It's the same plane and the same seat, but at a lower cost. Does the falling ticket price mean something will be wrong with the service on the plane? Does it mean the plane has a higher likelihood of crashing into a mountain than when ticket prices were higher? No, it simply means you are paying less to get where you need to go.

People tend to think the opposite when they see a broadly diversified index dropping in price. Suddenly, something is wrong with the stock market. Fear starts to creep in. Lower prices must mean someone knows something is wrong, right? The last thing you want to do is buy stocks and then have them crash into the proverbial mountain.

Actually, the opposite is true. With a long enough time horizon and a well-diversified approach, shouldn't you be buying? Instead of staying away, or even selling, the lower prices mean it may be a great time to buy. If people stopped overthinking things, they would realize this approach can be the most profitable.

Emotional blinders

By and large, emotions cloud judgment and cause people to make mistakes. Can you think of a time you made an emotional decision that didn't work out as planned? Perhaps you bought something on a bad day hoping it would make you feel better and two weeks later, you realized you didn't want or need that item. When investing, emotions can take over and logic is replaced with fear. Fear is common among investors and leads to many, many mistakes.

Being bored is another emotional response, probably costing investors as much angst as fear. You might be saying, "Huh, boredom?" I wish I had a penny for every time I heard an investor point to an investment that is flat/down and say the following phrase, "It really isn't doing anything."

This perception is true, especially in today's social-media obsessed, headline-only-reading type of society. How can anyone possibly hold on to an investment that doesn't show immediate returns? Today, long term is measured in days and weeks rather than years and decades.

We are programmed to skip past commercials on TV. Or if we are watching a program in real time, then we browse our Facebook feed while we wait through the eternity of a commercial break. My son yells at me when TV commercials interrupt his cartoons. And, why shouldn't he? He doesn't know life before a DVR.

Faster pace, same game

Our collective attention span is not improving anytime soon; if anything, this attention span will continue to shrink rapidly.

Overall, our ability to obtain and react to more information quickly is positive for society. However, the fact that we can consume so much information in such a short amount of time can be a negative when it comes to investing.

So much information is at our fingertips. Individuals can accomplish so much more than they could just a generation or two ago. With YouTube and the Internet on our phones, we can look up anything in the blink of an eye. (If it takes two blinks of an eye, we grow impatient.) The downside is a warped sense of time and faulty understanding of what patience really is.

While business moves at the speed of light and will continue on that path, investing is largely unchanged in the last 100 plus years. Many people try to bypass a tried and true formula for investment success:

DIVERSIFICATION + TIME = PROFIT

Let's walk through what a typical investor trying to outsmart a diversified approach might do and follow the timeline of that investor's strategy. This lesson will hold true of any asset class and any long-term time horizon, but we will focus on the late 1990's into the early 2000's.

Our investor put his money into the International Index (MSCI EAFE Index) in the beginning of 1997. Perhaps he received a tip from a friend, or read a promising article on what was a new and exciting thing called the Internet back then. If he started in the beginning of 1997 and held it until the end of the year, International stocks returned a positive 2.06%.

While that is positive, it was in the bottom three of asset classes for that year. Some (a lot of) people might look at their retirement account statement at the end of the year and be underwhelmed with the return. This person might decide to take the investment in International and move it to something else. Perhaps he received a different tip or read a different online article. After all, International "isn't really doing anything…" So he moves his investment.

Using the way-back machine

Now let's look at what happened the next year in 1998. International ended in the top two asset classes for that year and had a very healthy return of more than 20%. However, our investor was thinking those results were a fluke and was afraid to jump back in to that investment too early. Many people might (and probably would) want to watch it another year and see if it is the real deal.

The next year, 1999, International was in the top two again. This year was even better returning over 27% to shareholders. It looked like investing in International was the real deal, after all. Our investor considers it was time to jump back in. Only he wouldn't use that phrase; he would call it something like "rebalancing." He had been patient and taken the long-term approach, right? He wanted to wait until the investment showed some promise, then start investing in it.

Side note: rebalancing doesn't mean you move all or most of your money in and out of investments each year.

Once the money went into International in 1999, it took a dive and had a negative return in 2000. It dropped almost 14% and fell into the BOTTOM two asset classes for that year. What happened? It looked like it was going to keep its upward momentum. However, the investor reminded himself that he was a long-term investor and wouldn't be scared off by one bad year. He also couldn't bring himself to sell for a loss, another common investor challenge. He held onto the investment.

The situation turns depressing

In 2001 the wheels fell off; International was the worst asset class for that year and fell a whopping 21.21%. This situation was extremely depressing, since it was the second down year and the investor was underwater for his investment. He didn't want a loss. Instead of selling out, he planned to hold on until he got his money back. Once he recouped the money, he would avoid International stocks because they were too volatile. He would give it another few years to break even, then get out.

Uh-oh. International stocks in 2002 dropped by double digits again, to the tune of 15.66%. That fall marked the third consecutive year of double-digit negative returns. It also was the third consecutive year that International was in the bottom three asset classes; it was a broken investment class. This investment had become one to ditch while he still has some money left, right?

Let's pause and recap the sequence of events. The first year was a flat earnings year for International stocks. It is easy to get bored with investments, especially when you see other opportunities doing better than what you own. Our investor got out of the International asset class, but the next two years were really good. However, he missed them.

After reversing course and reestablishing an International position, the investment had three straight down years. All told, his investment in the International asset class showed one flat year, two missed opportunity years, and then three years of negative returns. No wonder people think the market is rigged.

A Greatest Hit of Investment Mistakes

In 2003, this investor swears off International for good. He can't get the timing down and always seems to be on the wrong side of the trade. Of course, this approach almost guarantees that International will be the best investment option for the next half a decade.

That is exactly what happened. The International index had positive double-digit gains for five straight years. It was one of the best times for an asset class in modern history.

This scenario outlines one of the least publicized investment mistakes: boredom. Investors choose to get in and out of investment positions because of the following logic: "It isn't really doing anything." Not all investments go up all the time. Unless it is a fixed investment option (fixed annuity, CD or savings), good years and bad years, and yes… some boring years of being flat…are likely. Just because an investment is taking a breather for a year or two, or longer, doesn't mean you should lose sight of the long-term approach toward investing. Remember, long term is measured in years, not days or months.

Here are the mistakes this investor made:

1. Chasing returns

After watching International stocks go up for two straight years, this investor told himself he was being cautious before putting his money in. What he was doing, in reality, is chasing returns.

Let's step away from the International example and give a different view of the same mistake. When you picked the investments in your retirement plan, did you pick the investments with the worst 10-year returns or the best 10-year gains? EVERYONE picks the investment with the best 10-year returns and attempts to avoid the 10-year dogs.

In this situation, they think they are taking a long-term approach and attempting to identify investments that appear to be consistent and proven when really they are chasing the last decade's returns. A true long-term investor will see value in the asset classes that underperformed for 10 years. Consider the fact that growing from an investment's lower starting point is easier than growing from a higher starting point.

2. Concentrated investing

This investor was trying to pick the winners each year. This exercise is futile for nearly all who attempt it. The market has a way of zigging when you think it will zag and vice versa. By concentrating your portfolio into only one or a couple asset classes, you may have a huge down year while the overall market was up. Diversification takes the pressure off picking any one asset class, or worse, any one stock or sector.

The diversified portfolio

If we blended all the asset classes into one portfolio (US Large Cap, US Mid/Small Cap, International, Bonds, Global Bonds, Real Estate, Commodities and Cash) and create a sample Diversified Portfolio, what would it do?

A diversified portfolio will never be on the top of the leaderboard as the best performer or all the way at the bottom in any year. The wide range of outcomes will be reduced, meaning the portfolio won't get too high with the highs or too low with the lows.

That more narrow range of performance results will come in handy when trying to plan for retirement, college or whatever other goals you have. Of course, being diversified doesn't mean you prevent market losses completely.

Investors have a million ways to over-complicate their investment strategy. This over-complication usually leads to underwhelming returns and results. Some of the best investors I have the pleasure of working with follow this modified investing formula:

Diversification + Patience = Investing Success

Diversification mistakes

Getting away from the time tested and proven method of diversification is easier than most people think. Here is a short list of some of the more common investor mistakes:

Comfort Stock – This individual stock or investment has been acquired over time. It is usually a company the individual worked for, typically for a long time. *Example: The Exxon employee who spent her entire career with the company, and through options and a stock purchase plan, coupled with market growth, accumulated a disproportionate amount of XOM.*

She says to herself, "I've worked at the company my whole life; it's a stable company with a great business model." Or "It's one of the biggest companies in the world, and it pays a great dividend." You know who else said that same thing? Eastman Kodak employees. The photo paper company. When was the last time you bought photo film? No company in the history of the world is permanent. New technologies disrupt existing business models and make entire industries obsolete. (Think Blockbuster, Radio Shack and Woolworths.)

Bold prediction: someday we will look back at this point in time and say, "Remember when everyone used to have an iPhone?"

It's going to the moon – *Example: a stock that someone possesses, sometimes company stock and sometimes an educated guess, that does nothing but grow.* Even though the point of investing is to buy low and sell high, selling things when they are up is tough. Since the stock just keeps going up, why get out now? Then it drops and you tell yourself, "Okay, I'll sell it when it gets back to where it was." Then it never does get back up to that high point; instead it turns into a zombie stock. You can't sell it because it was once much higher and because to do so would be acknowledging you missed out.

Here is a quick story about a high flying stock and the mistakes that can happen. A few years ago, I went to the Under Armour annual shareholder meeting. When the meeting concluded there was a question and answer session the Founder and CEO Kevin Plank. Under Armour is a Baltimore-based company and Plank walks on water around the city, for the most part.

A woman stood up and was very excited to ask her question. She began, "Mr. Plank, first I just want to thank you for all that you've done for the city. I also want to tell you that a financial advisor told me I shouldn't put most of my money into Under Armour stock, but I did it anyway!" Everyone cheers. I roll my eyes. "So my questions is, when is the next stock split!?" Everyone cheers louder.

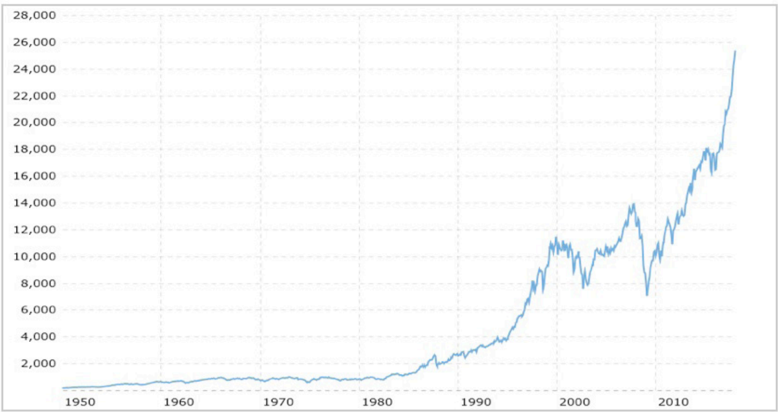
Stock splits explained

The woman's statement and question raise two important issues. The first is that a stock split does not increase shareholder value—at all. When you get change for a $20 bill, you get more bills. Does that mean you have more money? A stock split takes your $20 bill and hands you two $10 bills in return. That's it.

The second issue and main purpose of this story is to highlight the fact that this woman put her entire retirement into one company. At the time, Under Armour had been growing by leaps and bounds and crushing analyst projections every quarter. It was almost guaranteed. Almost. As I write this, only a couple of years later, this once invincible company's stock had plummeted more than 50% in one year. That exuberant woman in the crowd? Well, her retirement has been cut in half (with twice as many shares).

How the Under Armour stock will do in the future is anyone's guess. It could have been a temporary fall on its way to reclaiming investment glory or the start of a total collapse. The Under Armour stock might stay at that level for a long, long time.

While the overall market can fall dramatically, it has recovered every single time since the beginning of the stock market. Below is the historical return chart of the Dow Jones Industrial Average since 1950:



The same cannot be said for any one individual company. In fact, the odds are that most individual companies will be obsolete and their stock will become worthless at some point in the future.

Legacy Stock – This stock has been inherited. People tend to keep these longer than they should, and in greater amounts than they should, for sentimental reasons. The big position that made your parents wealthy probably is not going to achieve the same results for you. Just because your father worked as an executive at Sears Roebuck & Company during its heyday doesn't mean it should be a stock you own now. I'm sure someday in the distant future a child will inherit Amazon stock and the advice will apply then, as well. One day we will look at Amazon stock the same way we look at Sears now; companies do not last forever.

Sometimes people find themselves with a legacy stock or position because it was purchased for them by an advisor or as the result of a tip offered years ago. Most people find it easier to stay on the same path than make a course correction. Change is hard, especially when changing from something that happens to be doing well at the time.

Example: A client came to me, not in her 40s, but with an overly concentrated portfolio in one specific asset class. This client had young children and the money was supposed to, eventually, help cover college costs. Anything left over would help with retirement planning. Being a single parent, raising children and trying to save for the future, her stakes were pretty high to make the right financial decisions.

Looks can be deceiving

When I reviewed the portfolio, the performance numbers looked great. In fact, they looked better than most diversified portfolios that would be appropriate for this particular person's situation. She owned many different stocks and bonds. Upon closer inspection, she had a disproportionate amount of stocks invested in one sector of the economy.

Her investment was not only in one sector of the economy, but also in just one small slice of a specific sub-sector. Of the $1 million dollar portfolio, about half of it was invested in a sub-sector of the Energy sector. That sub-sector had performed really well for a number of years, so when I suggested selling the investments and diversifying, her initial reaction was, "Are you crazy? This thing is making money hand over fist!"

I explained that is exactly the reason why we need to sell it and sell it now. I do not know when, but I do know that at some point it will pull back. The drop could be very quick, very dramatic, and might take many years to recover from. Begrudgingly, she agreed and the positions were sold and reinvested into many sectors in the U.S. stock market. We also purchased exposure to international stocks. The result was a diversified, global portfolio spanning many industries and various company sizes.

I do not have a magic crystal ball. I don't own a deck of Tarot cards, either. However, this shift in stocks was the best move that ever could have happened to this client. Within a year, the subsection of the Energy sector crashed; some of her former positions dropped by 95%. Most declined 40% to 50%.

Making this shift in the stock portfolio helped significantly preserve her wealth. Besides having more money, another benefit of this shift was it allowed her to continue contributing to college costs for her children and still plan for retirement.

Managing systemic risk

Emotions offer the second and most common risk to your investment portfolio. Every one of us has made a money decision based on emotions. Usually it propels us to buy a new pair of shoes or something relatively small. However, as your money grows so does the responsibility to make rational, not emotional, decisions about your finances.

Most people think the biggest emotional risk to investing is greed. People in their 40s tend to be prone to making emotion-based financial decisions, since they are trying to save and make money work as hard as possible for them. People may cut corners by investing in only bio-tech or commodities or some other exotic-sounding investment idea. If they are late to the investing party, they may attempt to make up for lost time by getting ultra-aggressive and swing for the fences. They say, "I'm 40 years old, I can afford to strike out a few times as long as I hit a couple of home runs."

However, greed is not the biggest risk. Actually, a more powerful emotion and the exact opposite of greed that prevents people from fulfilling their true investor potential: Fear. While overdoing it on investments that keep going up is easy to fall into, the fear that comes with falling investment values is what ultimately obliterates a sound financial plan.

When investments start to drop hard, more powerful responses arise. Investors start to say, "When is this going to stop? I can't lose all my money!" or "I have worked too hard for this money to lose it all." When people get to the bottom of the rollercoaster, they usually say, "Okay, that's enough, let me off." Then they tell their friends that the "market" is rigged and only fat-cats on Wall Street make money.

A frequent problem

I have personally seen this story play out 132,934 times—approximately.

When stocks are on the way up, most investors think they are smarter than they really are. Or they think they are more aggressive investors than they really are. On the contrary, as those stocks start to fall fast, people are more conservative than they really should be.

This fear during a market correction is always masked. I have seen many thinly veiled attempts at justifying selling low. When the market falls and your investments drop, very few people say things as simple as "Cash me out, I'm done." They aren't as obvious about it. Instead, people will come up with all kinds of crazy reasons why they should increase cash or increase bonds in times of a falling market. Usually, only in a falling market do I hear these things.

Here are a couple of the more popular reasons people come up with to explain why they should overhaul their investments during a downturn:

- I might have a big expense coming up (that never happens) in the next year—usually house related.
- I don't feel that confident in my job; I might need some cash in case I lose my job (that they never lose).
- My favorite: I'd rather spend the money on something that makes me happy (purchase a sports car, pool or some big vacation) rather than lose it all in the market.

This last one is the best. Because what that person is really saying is, "My portfolio is temporarily down, so I better spend it frivolously!" Makes perfect sense, right?

If you have an appropriate portfolio that is well-diversified and allocated in a way that is well-suited for your specific circumstances and risk tolerance, then you should be just fine. You have to accept the fact that not every statement will be higher than the previous. And you should never hold a portfolio that pushes you completely out of your comfort zone and into panic mode. You can express concern about a falling market. But if you start to lose sleep or your appetite over it, then you might need some extra help.

Decisions

Your 40s are a time for growth. You should take stock of where you are and make the changes necessary to improve your finances. Improving your finances comes in two different ways.

The first is increasing the amount of money you are investing. It is important to keep putting money away into a well thought out mix of assets. The second and equally important improvement to make is growing as an investor.

You need to avoid some common risks and pitfalls of investors. You should understand how things can go wrong so that you can learn from others' mistakes and attempt to avoid them.

Make reviewing your plan and investments a regular part of this decade. The "set it and forget it" method does not apply to your personal financial situation. To many investors, that approach suggests finding the right professional to help keep things on track and work toward progress. You now hopefully know the blueprint to financial success in your 40s.

Paying Down Your House

If I had a nickel for every time someone asked me the question "Should I pay down my mortgage faster?" I would have enough money to pay off my house. But…should I pay off my house with those nickels? The answer is no.

Well, probably not. Actually, it's complicated. But I'll stick with probably not.

For each individual, the answer is easy to determine. To figure out if paying down your mortgage is a good idea, you must answer the following question: Would I be able to take the money and invest without the temptation of spending it? The answer to that question will determine which path has the better chance of success.

If you are disciplined and able to set the money aside and not touch it, then you should not pay more than the minimum on your mortgage. While I can't predict the future, I do have this ability to read people's minds. I can hear you saying to yourself, "But if I pay off my house, then I won't have a mortgage payment. I'll save a ton in interest." That's true, you won't have a mortgage anymore and the interest associated with it, but are there better ways to allocate that cash flow?

As I write this section in mid-2017, the interest rates on mortgages have been at historic lows; most people currently are paying between 3% to 5% on 30-year, fixed-rate mortgages.

You should be aware that the interest you pay on that mortgage (at least at the time of writing this chapter) is tax deductible in most cases, so those deductions reduce the overall cost of borrowing. For example, if you are in the 25% tax bracket and have an interest rate of 4% on your mortgage, the after-tax interest rate is closer to 3%.

Discipline drives the decision

Put simply, the cost of borrowing that money is pretty low.

But discipline is essential: If you invest the money into something that earns more than the interest rate on the mortgage, rather than use it to pay down your mortgage, then you will be ahead in the long run. A diversified portfolio held for the long term has a great chance of outperforming low, single-digit, fixed interest rates. Not only should your money grow faster, but you also have access to it.

Access to your money is important. If you are paying extra money toward your mortgage to pay it down, where would you find money for an emergency expense? You probably would need to tap the equity that you have been paying for in your home. Of course, the bank will allow you to access this money—for a cost. If you need money and have a diversified after-tax portfolio, you have control over when you sell things, what to sell and how to take your money. You dictate the terms versus asking the bank for a loan.

Honesty counts

If you answered the "would you spend the money" question with a "maybe" or some hesitation, then putting some extra money into the mortgage isn't a terrible thing. You need to be honest with yourself, especially when it comes to your personal finances. If you are the kind of person who sees money in an investment portfolio and would likely take it out to spend on something that might not help you long term, then paying off your mortgage isn't a bad idea. Some people (actually, a lot of people) need to keep their assets a little further than arm's length so they don't spend the money.

Paying down your mortgage faster is a good thing. But paying the minimum on your mortgage and investing the money into a higher growth asset is better. You must be self-aware and pick which option works best for your personality and situation. I recommend that you discuss all of these options with your advisor.

Your Early 50s

Goals for this decade:

- Build your buckets.
- Create a budget that helps you pay for your child or children's college.
- Understand the implications of 401(k)/retirement plan loans.
- Face career realities.

Retirement planning with buckets

Companies have started doing away with pension plans, and Social Security benefits cover less and less of an individual's retirement income needs. Americans used to have a three-legged stool of retirement income: pension income, Social Security income and savings. These days the stool is a little wobbly. For most people, the pension leg is missing, the Social Security leg is short and the savings leg has many unknowns.

This situation is nothing new. This trend has been affecting a couple of generations of retirement savers. For retirement planning purposes in our 50s decade, we will focus on the savings leg. We will dissect one of the most mysterious subjects people face when planning their retirement: the subject of turning your nest egg into an income stream.

You have spent a lifetime saving money and accumulating assets. If you have listened to financial gurus and heeded their advice, you have developed a diversified portfolio of different asset classes. Hopefully, you have a broad mix of U.S.-based stocks, international stocks and different types of bonds. You can also sprinkle in some real estate, commodities, and some other asset classes to further diversify. This approach toward retirement planning is easily understood. Diversification is a concept that people are familiar with and understand.

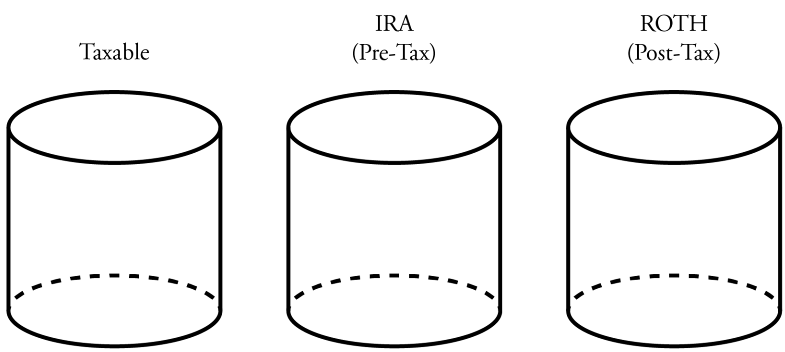
Another side of retirement planning is also important. People struggle with how to draw income from their savings. That is the $1 million question. Or the $5 million or $500,000 question. On the way toward retirement, you sock away money in different instruments. Sometimes its value increases, sometimes it drops. You just keep putting in more money. Then you retire. Now you have to figure out a way to turn the portfolio into a paycheck and make sure it lasts until your last breath.

Avoiding cat food for dinner

The stakes are quite high. If you outspend your portfolio, you may end up eating cat food in someone's basement. I see it all the time. (Running out of money, not the cat food part.) The plan should be to outlive your portfolio. To best position yourself for this transition to taking money from your accounts, you shouldn't just rely on investment diversification. You should diversify your tax positioning as well.

Here is a lesson on distribution planning and the power of diversifying your taxes.

THE BUCKETS



To make things easier, I will simplify the retirement accounts by putting them into three tax buckets. Of course, it can be more complicated, but let's keep it easy for demonstration purposes.

The Taxable Bucket

The first bucket is the "Taxable" bucket. This money reaches your bank account after the IRS takes its cut. This amount is what you see on your paycheck after all of the deductions are taken. Or it is the amount of money that hits your checking account by direct deposit.

This money goes into your checking account, and if you have been following my advice, some goes into savings. Currently, using an online savings account means getting 0.5% interest, instead of 0.05% at your brick-and-mortar bank. In a moment, I will show you other options for savings that may drastically improve your finances.

The pre-tax bucket

The second bucket is the IRA bucket. This money, whether in a Traditional IRA or Rollover IRA, is known as pre-tax, meaning you earned the money and it was invested before taxes were taken from it. In other words, you will later owe taxes on these IRAs, as well as a Traditional 401(k), Traditional 403(b) and some other types of accounts in the distribution phase.

Typically, when you separate from service with an employer, you have the ability to consolidate your retirement plan money, among other options. This consolidation can be performed as a trustee-to-trustee transfer, commonly known as a direct rollover. You can consolidate many old pre-tax retirement plans into a single IRA.

Perhaps you already have an existing IRA, or you can open a new one. Think of an IRA as a basket (or bucket in this case) that you can take with you from job to job. An IRA makes it easy to keep track of your retirement plan savings. Keeping investments in one place means you are less likely to forget where accounts are and how they are being managed. People have a hard enough time staying on top of these matters. Don't make it even harder than it needs to be with old retirement accounts scattered around.

The Roth bucket

In addition to consolidating retirement accounts from previous employer plans, you could leave the money in the plan, if that is allowed. Since the former company has costs associated with all participants, they prefer you to take the money when you leave. The last option is to cash out your retirement account. Age limitations and a cash-out distribution will likely result in a taxable distribution and potential penalties. Any combination of these options can be executed.

The last retirement bucket, and the one with most limited access to add to, is the Roth bucket. This bucket comes from individuals putting money into a Roth IRA or into a Roth 401(k). Not all companies that offer 401s will offer a Roth 401(k) option, but this trend is increasing among workplaces.

The Roth IRA funds are similar to the taxable money on the way in. You invest it with after-tax dollars. You do not get a tax deduction on the investment up front; the benefits come later. (I will explain those benefits shortly.) If your income exceeds a certain level, you cannot contribute to a Roth IRA. At the time of writing this book, no income limits were imposed on Roth 401(k) contributions.

Limitations to adding money

Taxable Bucket – This bucket has no limitations on what you can add. As long as you are paying enough in taxes, the sky is the limit. You can add $1,000, $1 million, $1 billion or more into this bucket each year. Age restrictions do not exist either, thus making it the most flexible bucket from that standpoint.

IRA (Pre-tax) – This option has limitations, which change annually so we will keep things in general terms. If you want to add money and deduct the investment on your taxes, your income must be below a certain threshold. If you have access to a 401(k) or 403(b) plan (or some other employer sponsored plan), you are limited to how much money you can contribute with no income limitations. With Traditional IRA and Traditional work plans, "catch-up" provisions allow you to put a little more money in closer to retirement age.

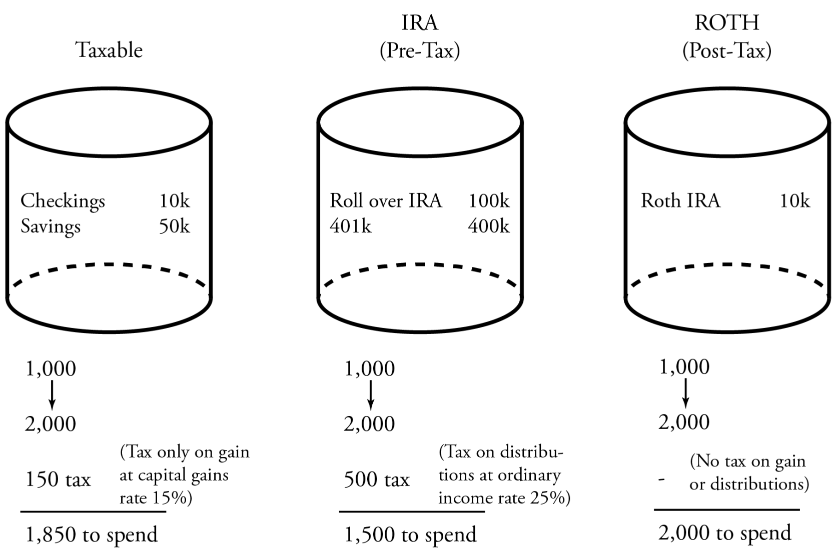
Roth – You can add money to a Roth a few different ways. The first is opening and contributing to a Roth IRA. The IRS does place an income phase out on eligibility. Basically, if your income exceeds a certain level, the IRS prohibits you from adding to your Roth IRA.

Another option is making contributions to your Roth retirement option at work. There are no income limitations and going through a 401(k)/403(b) allows you to put more money away. If you don't have a Roth option at work, then this option won't apply to you.

Lastly, the IRS has softened up its rules by allowing investors to convert Traditional IRA money into Roth IRA money. This rule has changed a bit over the years and isn't guaranteed to continue. It is a complicated planning tool requiring in depth analysis to see if it would improve someone's situation. For most people, it usually isn't a profitable endeavor. Check with your qualified advisor.

"The Buckets"

Let's take a look at how a typical 50-something who has been a good saver might allocate the buckets.

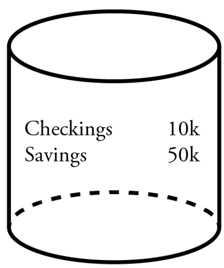


As you can see, this person has money in a checking account to pay bills while keeping a little left over each month. Over the years, he also saved cash for a Rainy Day Fund, thus providing a cushion of money for a major car repair, a job layoff or some other unknown large expense. This person has been taking advantage of the employer's 401(k) plan at work and has been contributing enough to get the full match plus a little more. A Rollover IRA that came from his first job also exists. He was smart enough not to cash it out when he was younger and that Rollover IRA has grown to be a significant portion of his retirement savings. He also might have some money saved in a Roth that he started when he was younger. In the past, he was told it was a good idea so he put a few thousand dollars a year into it.

This individual plans to keep saving some money in a Rainy Day Fund and contributing to the 401(k) at work. Like the majority of people, this person strives to get some extra money into savings for short term emergencies while saving long term money into retirement accounts like IRAs and 401(k)s. That strategy isn't a bad one. But it leaves some major opportunities on the table. It also doesn't account for much flexibility when this person starts taking money out of his savings to pay for retirement. Here's how it works when the money comes out.

Distributions and taxes

Taxable



1,000
↓
2,000

150 tax (Tax only on gain at capital gains rate 15%)

1,850 to spend

The Taxable bucket

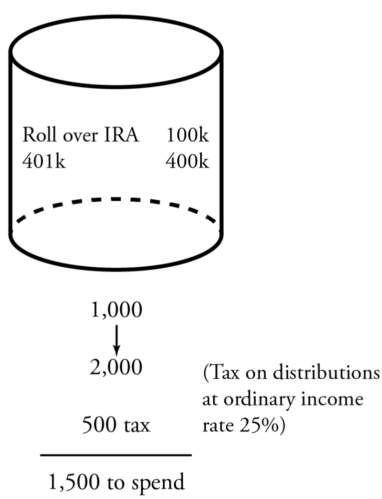
Taxable: This money is purchased with after-tax dollars. The amount of money you invest is called your "basis" or "cost basis." When you take money out of this bucket, anything that is a return of that initial investment is not taxed again, while anything that is gain/profit is taxed.

This example shows checking and savings accounts that don't involve much capital gains. Let's say this person decides to invest $1,000 into a mutual fund, and over a period of time, it grows to $2,000. If he decides to pull out that $2,000, the initial investment (or basis) of $1,000 would not be taxed. That is a return of basis. The $1,000 gain (or profit) would be taxed. A lot of variables determine what that rate would be, but let's say this person is not a super-high income earner; his capital-gains tax would be roughly 15% of the profit or $150.

So this person invested $1,000 and it increased to $2,000 a few years later, and he cashed it in. In this example, he would pay $150 in tax and have $1,850 left to spend on whatever he wanted.

To take it a step further, let's say the person was pulling out $2,000 a month to cover his retirement needs. If this person is cashing in $2,000 a month, he is only able to spend $1,850 after-taxes are accounted for. This concept is important when planning retirement income.

IRA
(Pre-Tax)



The IRA bucket

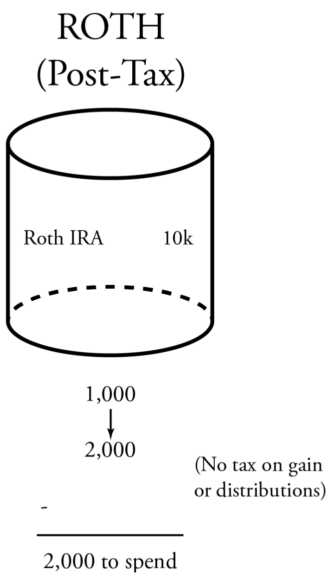
IRA: Typically, people have the majority of their retirement savings in this bucket. It is usually the largest of the three buckets when you get to your 50s, assuming you haven't sold a business or had a wealthy family member leave you a great deal of money. The size of this bucket necessitates you knowing how money comes out of it.

Let's say that you have contributed $1,000 to your IRA or company retirement plan. That money goes in before you are ever taxed. Over a number of years, it grows to $2,000 and then you take it out. Sound familiar?

Here is where things are different than distributions from the Taxable bucket. The money you take out of this bucket (assuming you meet the age qualifications to avoid penalties) is all taxable at ordinary income rates. That taxation affects the amount of money you invested AND the gain.

Out of the $2,000 you pull out of the IRA, all $2,000 is included on your taxable income. If your effective tax rate is 25% (again, we are keeping things simple), meaning you will have to pay taxes of $500. That $500 is 25% of the distribution.

The bottom line here is that if you take out $2,000 a month from your IRA to help cover retirement expenses, you might only get to spend $1,500. That amount depends on your tax situation. It might be more or less. But that number is in the ballpark for most people considering retirement. Your tax preparer will be able to get you a more accurate number, of course.



The Roth bucket

Roth: This bucket is almost always the smallest, if anything is in it at all. Here is how it works. The money that goes into a Roth is after-tax. It doesn't matter if this Roth is through work or one you set up on your own. Similar to the Taxable bucket, this money hits your checking account after the IRS and all the other deductions are taken out.

For our example, let's assume $1,000 is invested and it grows to $2,000. Let's also assume that the individual meets the necessary age and holding requirements for a Roth. When the money comes out, the basis is tax-free AND the earnings are also tax-free. If you follow the rules, the entire distribution is tax free and you can keep the whole thing. For the individual drawing $2,000 from a Roth and meeting the requirements, all $2,000 each month can be spent.

Which bucket is best?

The best bucket depends on your situation. The benefit of pre-tax IRA money is you are saving on taxes when you are working and in your assumed higher income tax years. Upon retirement, your income most likely will drop and, ideally, your tax bracket will drop, too. The thought is you save at higher tax rates in higher income earning years, then spend when in lower tax brackets in retirement. In theory, this approach makes great sense. But in reality, nothing is ever that easy.

What if your income doesn't drop in retirement and you are in the same tax bracket? Or what if your income drops in retirement but tax rates go up? What if you think you are only going to take a certain amount out of the IRA bucket each year, but things change and you take more than you originally thought? Since this bucket is the biggest for retirement savers, the above concerns should not be ignored.

From an after-tax distribution point of view, the Roth and Taxable buckets look better at first glance. Later in life, when you take the money out, it is either tax-free or profits are taxed at capital-gains rates. You can keep more of your distribution, right? That approach assumes the IRS doesn't change the rules, which they have been known to do. What if they rewrite Roth distribution rules? What if capital gains rates are increased to the same level as your tax bracket or higher?

Life is full of unknowns, especially when it comes to finances and taxes. The savings rules for retirement are fluid. Every year seems to bring changes to the code, from both a saver and retirement spender's perspective. Just because you have planned and strategized doesn't mean the future will unfold that way.

A quick story

A man approached me and said he wanted to pay off his mortgage just before retirement. He had $300,000 in the Taxable bucket, in a mutual fund portfolio; $300,000 in the IRA bucket, in a mutual fund portfolio; and owed $300,000 on his mortgage. He did not possess a Roth.

I made some (good) points about why it makes sense to keep his investments and continue to make the minimum mortgage payments. But ultimately, the client makes the decisions about his money. He chose to pay off the mortgage with proceeds from the Taxable bucket and go into retirement debt-free. The strategy sounds acceptable to most on the surface.

A couple months into retirement, he had some unforeseen expenses like tires. He also was hosting a Thanksgiving dinner for the extended family. Since he sold out of his taxable account, the only bucket he had left was the IRA. What you now know, and this client was about to experience firsthand, was that every dollar that came out was taxed at his ordinary income rates.

The dreaded unexpected

Not much later a new unforeseen expense popped up. His roof started leaking and he needed a replacement. You can't just take $8,000 out of the IRA account; you owe taxes. So he really needed to take $10,000 or $11,000 out. The more you take out, the more income you have, and the higher the income tax bracket you are in.

This cycle can be viscous. After about a year of this situation, he realized he was taking out far more money than he anticipated. Part of the miscalculation was the taxes he had to pay on all distributions. In the end, we got him squared away. But he learned a very valuable and expensive lesson.

We do not know what the future holds. We don't know what tax policy will look like in five years, 10 years or 30 years from now.

We also don't know how long folks will live and how long their retirement will last.

Diversify, diversify

If tax rates for ordinary income go down, then IRA distributions start to look better. If tax rates increase but capital gains taxes go down, then distributions from the Taxable bucket start to look better. Here is what we do know: tax rates will change.

In fact, the only constant in any retirement is change. Income, expenses, taxes and healthcare are just a few of the things that will be different decade by decade and year by year in retirement. The best thing you can do in your early 50s is make a decision to add to as many buckets as you can. But no ratio or guideline for how much you should have in each bucket exists. What you should strive for is to save as much as you can without making too many sacrifices, and put those savings in two or three different tax-structured buckets.

At the beginning of your retirement, it might make more sense to pull money from the Taxable bucket. But later in retirement it might make sense to pull money from your IRA bucket. Perhaps you should take distributions from your Roth first and taxable account later. If you have more money in your IRA than you plan on spending, maybe you should spend that money first to reduce required minimum distributions down the road.

Hopefully, you now understand that true diversification goes beyond just stocks/bonds/cash. In retirement, the goal is to have as many options available to you as possible by increasing the tax diversification to allow flexibility in the future. Asset allocation will get you halfway to an optimal retirement strategy, tax bucket diversification can take you the rest of the way.

Share your college budget

Remember being a teenager? Remember the types of thinking that went into decisions? If there was any thinking or thought process at all. Let's fast forward to today's youth. If you have children who are old enough and interested enough in college, then this section is important.

A client of mine told me a story about her child. Mom and her young adult reached the stage where they began exploring college options. Her teenage son is very intelligent and works hard to earn good grades. He is not interested in partying or getting into trouble, like many of his contemporaries. At 17 years old, this young man is polite, relatively quiet and studious; he is a good egg.

Before they got really serious about looking at colleges, mom and her son have this conversation at dinner one night:

"Mom, I think I know where I want to visit for college."

"Oh yeah? We have a few free weekends coming up. Where would you like to go?"

"NYU."

"NYU? As in New York University in the middle of Manhattan, NYU?"

"That's the one."

A little surprised since this is the first time she has heard any interest in that school she asks, "And, why that school?"

Could it be the renowned Visual and Performing Arts Program? The Stern School of Business or maybe the School of Law?

"New York has a lot of clubs and restaurants and stuff."

Waking up to real expenses

When my client recounted this story to me, we both started laughing. She said her son has never been out to "a club" or even to a party with underage drinking. But even so, he is interested in the NY club and restaurant scene and attending a school that is roughly $65,000 to $70,000 a year.

She asked him how much he thought rent was in Manhattan. He said, "I don't know, maybe $300 month?" Ha.

And why would he know? He has never paid rent or maintained any kind of monthly budget—ever. Vacations are free (for him). Sports equipment, meals and medical care…free, free and free. So, while it is funny to adults to hear how teenagers view expenses and the cost of things, it won't be when your child starts looking at colleges. Your teenager, just like you a million years ago, has no concept of cost in relation to anything else. To make matters worse, a majority of middle to upper-middle class parents will not commit to a tuition range when discussing college finances with their kids. They do not give an explicit budget for what they are willing to pay before their child begins the process of evaluating college choices. Unless you have unlimited funds or extended family with unlimited funds for school expenses, how can this not be a topic of conversation? I see this all the time from people of all financial and educational backgrounds.

When considering a new home purchase, what was the highest priority? Was it the color of the kitchen cabinets? Whether the house had carpet or hardwood floors? No. The decision of paramount importance was determining the monthly mortgage and associated expenses. Usually, a budget is calculated any time a major financial decision needs to be made. But not with college. People are willing to dig a deep hole and drive their families into debt. It doesn't have to be that way.

Why hesitance often prevails

My experience is that parents are hesitant to discuss the college budget with their children for two reasons. The first is that talking about money is a taboo. Discussing money in anything other than abstract or general terms makes people uncomfortable. For example, you can ask a coworker what allocation percentages she has in her 401(k). But you cannot ask how much money she has saved in it.

Not only is money a taboo subject, but discussing money with children is often times more uncomfortable than discussing money with strangers. Parents don't typically want to pull back the curtain and show their children how much money they do or don't have. A close family member of mine struggled with telling me how much money she made after asking me for some guidance. That situation might not seem odd, except for the fact that I have been her financial advisor for over a decade.

The second reason this discussion never happens is parental guilt. Every parent wants better for their children than they had growing up. We all want our children to be doctors or lawyers or titans of industry. If paying NYU tuition will provide them a chance at a better life, than many parents think that is just the price you have to pay. Many parents think that by setting a limit on what they are willing to pay for college, they are putting a limit on their child's chances of success.

Spoiler alert – A 1:1 correlation between the cost of tuition and your child's future quality of life does not exist. Sometimes the best lessons your child can learn are ones that begin with you saying "No." Your child wants to go clubbing in NYC for $70,000 a year? No. They want a $100,000 student-debt balance after school to go somewhere with a Top 10 football program? No. The college planning decision can be a valuable teaching moment. This lesson might be the most valuable a young person can learn. Money is not infinite and there are consequences for financial decisions.

When vanity enters the scene

My experience is vanity causes some parents to overpay for college expenses. Many, not all, parents want to go to their high school reunion and tell everyone how Tommy or Suzie got into Harvard University. This statement will either show everyone how smart their child is and/or how much they can afford to pay to send their child to said school.

If you can afford to send your child to any school without missing any of your financial goals, then by all means pay for any college you wish.

It seems like we have children with no concept of money who are picking a school based on clubbing, what the food court looks like or if the school has a rock climbing wall. Then we have parents who are afraid to talk about money with their children or limit the perceived opportunities available to their child.

As if all that wasn't bad enough, we have a government and financial sector cashing in on this cocktail of cost-is-no-object decision-making with a bottomless pool of loans available to fund it all. I believe there will be a reset on the way school is priced and payed for, but until that day comes this is what we have.

No retirement loans

The student debt crisis starts with the decision to go to a college that the parents and student cannot afford. It is funded with debt that will put a choke hold on both student and parent for many, many years. Finally, it is capped off with frustration and regret when college is over and the loan payments begin. Only then do folks start to think, was that all worth it?

School should be viewed as an investment. I am not suggesting that children should never go to expensive schools. They should absolutely go to an expensive school if:

a) There is money to pay for it OR
b) The extra cost is justified by an increased expected income

Facing reality

For example, I worked with a doctor who came out of medical school with medical school debt. Some might think the medical school debt is worth it because doctors make a lot of money, right? Not always. This young individual paid her way through medical school and was the first in her family to graduate from college, let alone medical school.

The field of medicine she practices, however, only pays $60,000 a year. Now $60,000 right out of college is great, but not when you have a $130,000 loan balance you have to pay off. Her income is not part of a residency or anything like that, it is what she can expect to start making and it will not jump significantly higher in the future. She could go through the same schooling and graduate from medical school with the same amount of debt, yet pick a different area of medicine and start out making twice her current income. If she had it to do over again, she assures me she would've picked a different field of medicine.

For the most part, college-aged children largely do not think of their ROI (return on investment) with education. This is especially true when their parents are picking up the bill. If the parents are paying the tab then the return on investment, from the students' perspective, looks pretty good. The parents' perspective is probably not so happy.

If college is an investment in your child's future, then why don't we treat it as such…an investment? For example, if you are going to invest your money into a rental property, you want to know what the expected cost is and how much money you can make from it. You also probably want to know how long that money will be tied up.

Blank checks

What if a potential client came to me for an investment idea and I told him he had to write a blank check to get started? What if I also informed him that his money might be tied up for four years, maybe longer? What if I don't finish investing the money after all, but he never gets a refund. What if at the end I can't accurately tell him how much money his investment will earn, if anything? Does that seem to be a wise investment strategy?

It is for this reason that an open and honest conversation about college and accompanying costs needs to happen BEFORE any college visits are set. Why look at a college if it does not fit the budget? Would you look at $1,000,000 homes when your budget is only $250,000? Of course not. Does it make sense to spend $200,000 on college when a $100,000 degree will net you the same experience and expected salary? Do you think your child would benefit from learning to think this way? Do you wish someone had brought this to your attention when you were younger?

How much can you afford?

Two factors must be addressed to come up with the solution. How much have you saved for college for your child(ren)? Add up any 529 Plan money you have set aside or any state college savings credits you may have accumulated. DO NOT consider retirement assets as part of your college savings plan. Also, don't take loans against your 401(k) to pay for school. Again, there are loans for college, but not for retirement.

Traditional IRA or 401(k) assets carry heavy taxes and likely penalties if they are tapped to pay for school. At this stage of life, using retirement assets to pay for college costs can be a mistake that many people may not recover from. If you have cash savings or a taxable investment portfolio, those assets are okay to consider. Make sure you don't completely liquidate your Rainy Day Fund to send your child to a school. Moderation is the key to using this source of funding.

After you determine how much you have set aside already, and assuming that is not enough to cover tuition, start looking at cash flow and loans. How much can you afford to pay on a monthly/

quarterly/annual basis toward college costs and still maintain your retirement funding goals and Rainy Day Fund? That is not an easy answer to come up with and might require some help.

Make the calculations

Whether it is a home equity loan or a college loan program, determine how much money you can pay back each month. Use that monthly figure and determine how long you can comfortably pay that amount. Here's an example: Let's say you can afford $400 month and still save for retirement and stay current on your monthly budget obligations.

Figure out how long you feel comfortable paying that amount. Maybe you are willing to pay for six years. If you get a loan with an interest rate of 6% for six years and a $400 monthly payment, then you will be able to contribute just under $25,000 towards college costs. There are tons of online calculators to figure this out. The important part is you put at least a little thought into the process and then communicate that number to your prospective college student/ current roommate. If you have $25,000 saved up in a 529 plan and can afford a loan of another $25,000, then you can contribute $50,000 total. That's it. And yes, it really shouldn't be more complicated than that.

Guiding the analysis

The question of whether your child should be expected to pay anything for college is one of the more common college funding questions. It is pretty simple: if you are willing and able to pay for their college costs entirely or partially—then do so. If you are able financially to pay, but unwilling—then don't. If you are willing, but financially unable to pay—then don't. Don't overcomplicate it. You just pay what you can afford and if that falls short than your child will pick up the rest.

It is my personal belief that the parents' job is to help guide the child/student through some cost/benefit analysis. The lessons from that guidance alone could be worth far more than what you actually put toward college in real dollar contributions. Help your child understand whether it is worth it to spend more money to achieve the same degree with little difference in job prospects. If he or she is like most teenagers, they might think student loans are no big deal because they will make a ton of money with their college degree.

This is where you need to do your best to teach them the reality of what impact that debt will have on their lives. If your children don't listen to you, because that's what teenagers do, try to get them to talk to someone in their 20s who recently graduated from college. Maybe someone closer to their situation will have a better impact. At the end of the day, if your child must borrow in order to fund their school, it could have a huge beneficial impact on the experience. Most parents want to be able to pay for school, they want to make their child's life easier. But if you just pay for everything, your child doesn't truly take ownership over his decisions.

Skin in the Game

Skin in the game helps everyone stay focused, motivated and true to what they are looking to accomplish. If your child is taking loans and decides after one semester of college he wants to transfer to a trade school instead…that is fantastic. I can almost promise you that if college is "free" to them, that decision will be drawn out longer with many uncomfortable and disappointing conversations along the way. It's easier to spend/waste other peoples' money, but the effect is different when it's your own. Plus, not everyone should go to a four-year university. Many should not, in fact. Some of my wealthiest clients learned a trade and went through life not needing a four-year degree or not having one at all. No college costs and a large income, talk about ROI!

When it comes time to look at colleges, keep the following in mind: come up with a budget first. Communicate expectations before the first college or university is mentioned by name. Will you pay for it, if so how much? Will your child have some skin in the game or will they have to pay their entire way? Do your best to help your young adult understand the long term effects of debt and put it in real terms they can hopefully understand. This is one of the biggest financial decisions of either of your lives, so give it the time and the attention it deserves.

401(k) loans?

I said earlier there are no loans for retirement—in the traditional sense. However, there is an option for a 401(k) loan which is attached to a company retirement account. If offered by your company's retirement plan, 401(k) loans can be easy to access. That doesn't necessarily make it a good idea.

The way it works is you go through the plan's specific process and you can typically withdraw half of your account or $50,000—whichever is less. When you take the funds out, you have five years to pay it back. There is an interest rate you pay on this loan, which you pay yourself. On the surface, taking the money and paying yourself back plus interest has some appeal. However, there are some problems with this strategy.

Many participants who take money from their 401(k) in the form of a loan also stop contributing. That is a huge problem if your company matches your contributions. You miss out on not only the money you were used to adding each paycheck, but also the free money your employer was adding on top.

Missed opportunities

Missed opportunity cost is also possible. While your money is taken out of the account as a loan, it is no longer invested. In the several years it might take to pay off the balance, the money could have been invested and gaining in value. If the market has several good years, you have missed out on this growth. Some might say you can avoid a big market draw down too, but those happen less often than rising markets. It's difficult (more like impossible) to time the market.

If you think the interest you pay yourself will help counter the opportunity cost, think again. The interest isn't coming from some outside source; it's coming from your own pocket. Growth and income from the market add to your bottom line. Interest that you pay yourself comes from your own cash flow. It also robs your ability to save money while making these loan repayments.

This strategy also has potential tax ramifications. Taking out a loan isn't a taxable event as long as you follow all the rules completely. If you fail to pay back the entire loan, the amount that falls short is considered a distribution. This distribution will be subject to taxes and a penalty if you are under certain age limits. If you leave your job, get downsized or fired, you have only 60 days to pay back the loan. That five-year window goes away. What if you fail to pay back the balance within 60 days? Then it turns into a distribution and would be subject to taxes and a potential penalty. Is the money from the loan already gone? Oops.

Double taxation troubles

Let's say you follow the rules and pay back your 401(k) loan within the time limitations and stay employed by the company the entire time. What you have done is essentially subjected yourself to double taxation. The money that you use to pay back your loan is with after-tax dollars. Then, once the loan is paid off and you are in retirement, that money is taxed again upon distribution. You essentially replace pre-tax money (the original 401(k) balance) with after-tax money and then take distributions from that account in retirement which are also taxable. Double taxation. It might be a little confusing, which is also an indicator that it's probably not such a great idea.

Whatever has led you to consider a 401(k) loan, perhaps look elsewhere first. Hopefully you have built up your Rainy Day Fund. If not, look at the potential for a home equity loan. If neither of those are viable opportunities, look for other sources of money that carry low interest rates.

Taking a 401(k) loan is almost always better than a premature 401(k) distribution, which is kind of like how stubbing your toe is better than breaking your leg. A 401(k) loan works best as a short term tool to cover large or unexpected expenses as long as there is a plan to pay the balance back. The cost is less than typical consumer credit cards or predatory loan programs. Basically, the 401(k) loan might be the lesser of two evils. That being said, I find too many people get into the habit of running up debt then using their 401(k) to bail themselves out. They justify this behavior by thinking the 401(k) loan isn't such a bad move. The 401(k) is meant for long term wealth accumulation, not to fund the short term bad financial decisions in the form of loans. If you are on your second or third

401(k) loan, that is a symptom of a bigger problem. Only use the 401(k) loan, if you must, as part of a well thought out plan.

Career planning in your 50s

It might seem that as life expectancies are getting longer, careers seem to be getting shorter. If you are fortunate enough to move up the corporate ladder, there are more obstacles and people competing for your position. Things that seemed to be important in your 40s change right around the time you turn the big 5-0. Holding your position is a growing fear compared to the concern of upward career advancement.

It is similar to the situation of an aging quarterback. Early in a quarterback's career, he is underpaid and overworked. But, when you are young and hungry, you are just thankful for the opportunity to prove yourself. Perhaps over time, and with enough experience, you can prove your value and get paid accordingly for it. Unlike a professional quarterback you are not likely paid multimillion dollar contracts for your efforts!

Competition keeps cropping up

Then, even after some playoff wins and a Super Bowl victory, there seems to be growing competition for your job each year. Despite your impressive winning record, you are looking over your shoulder more and more. Younger players come into the league wanting their chance to prove themselves. They don't mind earning the league minimum, for now. The game seems to get faster and the players younger.

You have always been a team player and have put team victories over your own successes. That strategy has paid off up to this point. What happens if there is an injury that takes you off the field and gives the rookie a chance to succeed? They might be only 70% as good as you, but paid half as much. There's also an unknown ceiling to what they can do; they have significant upside potential.

What if your team moves to a different city or gets a new head coach who wants to "shake things up a bit?" Do you fit in that new offensive system? Where do you fit into this changing organization?

The target grows

The reality of getting older, moving up in the workplace, and making more money is that the target on your back gets bigger. What do most executives do when they turn 50 years old or older and the pressures of work and career instability increase? They make a big purchase and/or crank up the lifestyle a notch or two. Perhaps a pricey home renovation is justified by the belief that it will increase the value of your home. Maybe it's a dream vacation you take because, well, you've earned it. This decade of life and career phase is not the time to start upending the financial diligence of the previous decades.

If you do find yourself the odd man out after a corporate merger or on the wrong side of cost cutting layoffs, it will take far longer to find a new position. The longer you are with a company and the more money you make, will limit your potential landing spots. There are many rules of thumb for how long it takes to find a job at this level. I can tell you with certainty how long it takes: longer than you wish.

With the growing risk of career instability as you get older, and the increased difficulty of finding a comparable job, there are two ways to prepare for a job loss. The first is building a sizable safety net. This doesn't mean tapping into your retirement accounts. It means having a mix of cash and investments held outside of retirement accounts. This is a more tax efficient way to prepare for unexpected expenses or loss of income.

Network, network, network

The second is to continue networking like you need a job. Remember what we talked about in the 20's chapter. Get out and have lunch with industry peers, friends and colleagues, as if you need a job. Call them on your way into work or on the way home. If you make it a point to invest your time in these activities, it will make finding a new opportunity much easier. It will also cut down on the time searching for a job. How easy would it be to pick up the phone and call someone you had lunch with a month ago to tell her you were let go? Much easier than calling that person asking for a favor if you haven't talked to her in years. Keep connections open and maintain a network like it's a part time job. Keep a network of advocates looking out for you and your career.

Lastly, don't spend right up to your income level. Maintain a diversified non-retirement investment strategy. Network with people you enjoy spending time with. Then, if the coach releases you, you'll be ready for the next opportunity.

Decisions

The first half of the 50s decade is usually consumed with college and retirement concerns. Of course those concerns are also the two most expensive planning items most people will face. Getting the nuances down and the correct strategy in place is paramount to staying on path for a successful retirement.

The first goal is to survive college expenses without taking an impactful hit to retirement goals. Doing so involves open conversations with kids about money and expectations, which isn't easy. You can't put a price on your child's happiness, but try telling that to the college controller's office.

Secondly, understanding how a diversified tax bucket strategy will benefit you in retirement may be the most important lesson of this chapter. It is a lesson that almost no one gives enough consideration. The importance of tax diversification comes down to this saying: It's not about how much you make but about how much you keep.

It is also in this decade that many rising corporate executives, or rank and file employees, start to get nervous about their careers like never before. All of a sudden you are on the back half of your career and with that reality comes uncertainty. The more you can save and network, the better prepared you will be.

Long-Term Care

Long-term care can be one of the biggest risks to the overall success or failure of a sound financial plan. It is also one of the least pleasant topics of conversation to review when looking at retirement options with a client. Who wants to think about themselves being unable to perform certain activities of daily living or about the potential burden to their spouse or family? The financial costs associated with a long- term care event can be overwhelming and catastrophic. The possibility of one of these events occurring is a large risk, if not the largest risk, to any financial plan. It is the iceberg in the middle of the ocean.

You have three main options when it comes to insuring this risk.

Self-insuring

This option is the one most people choose. Self-insuring a risk means that you are not pooling your funds with others (buying insurance) to offset the impact of a need. Instead, you are going to cover the risk of loss yourself if anything should happen—whether you can afford to cover it or not. In other words, you are prepared to alter your financial plans if an incident requiring long-term care were to arise.

Most people don't buy long-term care insurance. Therefore, by default, they have chosen to self-insure the risk of loss that would result. For most people in retirement, this option works because they don't need long-term care, and they save the money that would have been spent on premiums.

For the unfortunate who have a stroke with long-term effects, who develop Alzheimer's disease or who become afflicted with some other condition, it is devastating. Of course, that devastation is both emotional and financial. Who does this event affect the most? The surviving spouse and/or family.

You save all these years for a retirement to be spent trying new restaurants, spending time with family, and sitting on a beach. Does that nest egg also have roughly $250,000 or more of money set aside for a potential future long-term care event? If so, then you are in the ballpark of proper self-insured, long-term care coverage. If not, the surviving spouse will be the one who is shortchanged on his or her future. We can't predict when or if these things will pop up. By the time you realize you need to buy coverage, it's usually at the beginning of a long-term care event and you won't qualify for any coverage other than self-funding.

Pros: you save all the insurance premiums if you don't have an event.

Cons: the average long-term care event costs roughly $125,000. Treating a person who is suffering from Alzheimer's disease in a metropolitan area could cost well over $500,000.

Use it or lose it

The traditional long-term care policy that most people think of is the "use it or lose it" version. You pay premiums to the insurance company for years and years. Then, if an event happens and you qualify for benefits, the insurance company pays out what the policy dictates. Most people are reluctant to pay for insurance for decades if they never get anything from it. To be clear, "getting nothing out of it" means not having a long-term care health event. In other words, it means remaining healthy up until the point you die. Personally, I would rather let the insurance company keep the premiums and I'll stay healthy.

If a long-term care event does occur, traditional long-term care insurance offers the best bang for your buck when compared to the alternative options. It is the lowest cost with the highest payoff in case you end up using it.

If we had a crystal ball and knew someone would have a future long-term care event, this approach would be the most cost-effective way to cover that liability. No crystal ball is required, however, to tell you that the insurance premiums on a traditional long-term care policy will increase over time. Healthcare expenses have been growing faster than the base inflation rate and long-term care insurance companies must increase the premiums to accommodate these changes into their policies. We don't want to pay more for insurance throughout the policy, but we really don't want the company to be unable to pay us when we file our claim for coverage.

Pros: offers the most amount of coverage for the least amount of money

Cons: still costs several thousand dollars a year and no residual benefit if a claim is never filed

Life/long-term care hybrid

This hybrid version of a life insurance and long-term care insurance policy is a relatively newer option for future long-term care needs. As its name suggests, it combines a life insurance policy with long-term care coverage. It solves the "use it or lose it" dilemma. If you don't have a long-term care event, a death benefit attached will give you your money back and perhaps even more. If you do have a long-term care event, this hybrid policy will give you twice or three times the benefit compared to what you put into it. Just like a traditional long-term care policy, you can add some options like inflation adjustments and modify the benefit period to add or subtract years of benefit. This policy is funded either by a lump sum or through a fixed term of payments. Most minimums for premiums are not cheap. A hybrid policy can cost $50,000, or more. It really makes sense to put twice that amount or more into it, if you can afford it. A $100,000 premium might buy you $250,000 of long-term care benefit or $120,000 of death benefit if no long-term care claim is ever filed.

Disclaimer: The numbers provided above are hypothetical. A hybrid policy, like a traditional long term care policy, must go through the underwriting process. This will determine whether you qualify for coverage. Assuming you do qualify, it will also dictate the premium and benefit amounts.

Best sources of funding

The best sources of funding this option may come from an older, cash-value life insurance policy. At this phase of life, people tend to favor long-term care benefits more than death benefits. In rare cases, you can fund this investment with an annuity that isn't an IRA or other tax qualified account. If there are taxable gains in the annuity or life insurance policy, a 1035 exchange can fund the new hybrid life insurance/long-term care insurance policy in a tax efficient way. This approach is complicated so work with your tax/insurance advisors.

If you follow the policy rules, every dollar you put into a hybrid policy will either be paid in the form of a death benefit or long-term care benefit. Ultimately, you will either use it or use it.

Pros: Premiums don't go up like traditional long-term care insurance and it solves the "use it or lose it" dilemma

Cons: It offers less coverage than traditional long-term care insurance policies

When should you buy?

The best time to buy long-term care insurance is when you are healthy. Healthy applicants will get the best rates and the most coverage for a given budget.

When do people usually consider purchasing long-term care insurance? When they are sick and they know they have long-term care expenses coming up. Guess when people no longer qualify for long-term care insurance? When they are sick and they know they have these expenses coming up.

The average long-term care insurance policy is purchased by someone who is between the ages of 55 and 65. Obtaining this coverage earlier in your 50s is significantly less expensive, and it becomes significantly more expensive when you try to buy coverage in your late 60s and early 70s. Many people try to time purchasing long-term care insurance at the perfect time in their lives. They attempt to find that exact moment when they are at peak health and right before they have a long-term care event so they can obtain the best rates. They also hope to pay premiums on this policy for the fewest number of years. Wouldn't it be great, for planning purposes, if we knew when our health would change, and whether a long-term care event will ever happen? But, alas, life doesn't work that way. If you are in your 50s or 60s, look into the possibility of buying long-term care insurance in the near future.

What should you buy?

The answer varies from person to person because no two people are the same. Your financial situation, health conditions and family history should all play an important role in shaping a long-term care funding strategy. The one universal piece of advice I can offer to someone considering a long-term care policy is that some coverage is probably better than no coverage at all.

We cannot insure against every risk in life to which we may be subjected. But long-term care expenses are one of those things that can completely derail a well-crafted financial plan. You will do best to determine which option you are more drawn toward. Should you choose the traditional, long-term care insurance option, it offers the greatest benefit. Or would you rather avoid the "use it or lose it" challenge and opt for a hybrid life insurance/long-term care insurance policy? From there, figure out what you are comfortable allocating to this risk.

I find a lot of people believe they need to get a "Cadillac long-term care policy" or they get discouraged and get nothing. Obtaining long-term care insurance does not need to be an all-or-nothing decision. As with all things in personal finance, buy what you can afford. If that coverage falls short of insuring a stay at the Four Seasons of nursing homes for 10 years, so be it. You will do better having something rather than nothing. Remember, if you choose not to pay for the traditional or hybrid policy option, then you are making the decision of self-insuring. If you end up being one of the many with a long-term care event, that choice could become the most expensive option you can select.

Your Late 50s

Goals for this decade:

- Pay for a child's or children's wedding.
- Learn the difference between investing actively and passively.
- Recognize why women are better investors.
- Dispel the myths of annuities.
- Determine what to do with your expiring life insurance.
- Avoid some common allocation mistakes.
- Charitable giving the efficient way.

Weddings

Just when you thought it was safe to go back in the water, sharks appear off in the distance. Your children have completed their schooling and education-related costs have ended. They are also out of the house and off your dole. You are probably finished, if you choose, with the financial commitment of raising your children. You are finally in the clear. You can get the sports car you've always wanted or the kitchen renovation you have been putting off for decades. Right?

Then the children start getting married. Proposals, if everything goes to plan, eventually lead to weddings. As the 20s chapter points out, everything is different than when you were getting married.

Gone are the days of renting a fire hall and having a family friend cater with trays of lasagna.

In today's keeping up with the Joneses world, weddings are bigger and more expensive than ever. Modern weddings have things like photo booths, signature cocktails, and next morning brunches. If the bride and groom can't think it up, they get help from Pinterest and other digital wedding planning platforms. Combine financial expectations and coordination with another family and it can become awkward and complicated fast. Nothing is like taking two families joined by their children and navigating the unknown path toward an expensive night.

Pay-as-you-go

You can use one of two basic approaches to pay for a wedding. You can choose to pay-as-you-go or you can choose to cut one check. The multibillion-dollar wedding industry will tug on the heartstrings of everyone involved, every step of the way.

If you decide to pay as you go, be prepared to spend far more than you expect. A nicer dress or prettier flowers or upgraded bar is always ready to push the costs beyond your comfort level. At every step of the way, you will have to be the voice of reason to rein in expenditures. Most parents have been the voice of reason for long enough and don't want to tell their adult children what they can or can't do anymore. No one wants to be a Debbie Downer. So asked to choose between low-cost flowers or much prettier and more expensive flowers, do you really want to tell your son or daughter to select the cheap ones? Those are difficult decisions and since you are the one paying, they will be your difficult decisions.

When does the pay-as-you-go option make the most sense? If you have a very large budget and you want to be involved in most of the decisions, like selecting the venue, the menu, the entertainment and everything else that goes into this special night. To some parents, that situation might seem like a great way to spend time with your child given that you have the money to spend without compromising your own financial goals.

Write one check

For everyone else, a more simplified and less expensive option is available. Crunch the numbers, talk to your financial advisor and determine an amount you can afford to give your child. For some, the number might be $1,000. For others, the number might be $100,000. We won't go over what a wedding should cost because that's not the point. Once you have the number that fits your situation, write one check.

By providing this number and funds to your doe-eyed child and future son/daughter-in-law, you are setting the expectations clearly — and early. You are also allowing them to take ownership over their night and letting them make the difficult decisions. They must work together to determine how best to stretch their budget and they will know what that budget is from the beginning in well-defined terms.

Frustration and disappointment occur when clearly defined expectations are not set from the beginning. So, early in the planning process, clearly define what you are willing to contribute. I promise you, whatever that number is, the young couple will be most appreciative. Let them learn the hard way how expensive things can be. A wedding can be stressful with many moving parts beyond the financial aspect of things. It also will be a great project for a young couple to work through together. Think of it as a team-building exercise.

Make sure not to mortgage your financial future to pay for any wedding, especially if you have multiple children who plan on getting married someday. Of course, we hope to give our children everything they could ever want and more. The reality is that everything has a budget, and to maintain a healthy financial plan, that wedding budget needs to fit your situation. Remember, when the night ends, people will retain the feeling of the wedding. At its core a wedding is about two people joining together, not about materialistic things. People will remember the personal interactions and fun they had with loved ones more than the surf-and-turf dinner they ate.

Resisting advice and coaching

Millennials often get a bad rap from the older generations. The common complaints, which are sometimes well founded, include being self-centered, lazy and know-it-alls. In a recent meeting with someone from the "greatest generation," I was told about how the younger employees at his work, his superiors included, tried to blaze their own path and don't bother listening to those who have more experience. Why make so many mistakes that others before you have made?

Later in the meeting, we discussed retirement planning strategies and how to allocate his portfolio. We reviewed how emotions work when it comes to money, specifically when you turn the paycheck income off and turn on the portfolio income. I explained the emotions are different when you're retired and you are more susceptible to doing the wrong things for what you think are the right reasons. He listened as I gave him stories of others' mistakes and what we do to try to prevent them in the future. At the end of the conversation, he basically said the following, "Joe, I hear what you're saying, but I know how these things work and I won't make those mistakes."

I replied, "That's funny, that's what those clients told me, too, when we first started working together!" In my head, I thought, "That is the exact thing you were just complaining about with millennials."

Some people, regardless of age or gender, are more resistant to advice and coaching, including investors who think they seek out advice, but really just want their current actions validated. They have no intention of changing what they are doing; they just want someone to tell them they are doing a great job, even if they are the captain of the Titanic and headed at full speed toward a financial iceberg.

Why women are better investors

When it comes to investing and financial planning, one gender seems to do better, regardless of age. As with all stereotypes, exceptions exist, of course. The most coachable investors that actually listen (rather than waiting to talk and share their successes) and have the most positive results (including better returns) tend to be women. I'm not saying all women are better than all men at investing. I'm not saying that all men are bad at investing. What I am saying is that women are the investors who tend to know their strengths. They are willing to seek help and guidance to address their weaknesses.

This difference isn't 100% of the time in all circumstances, but the cumulative effect of the psychological differences compound over time. Some of the Type A driver males try to "fix" things and tend to be less patient. Women tend to listen better and follow the advice of trusted experts. Men tend to be competitive with investments in a way that hurts them down the road. Often, men want the highest return, regardless of what return they need to achieve goals. The risk in the portfolio required to achieve higher returns catches up with them in a down market.

Men typically underestimate how much of a drop they can tolerate in a portfolio when the market is up. When the market turns south they realize the drop in the account is more than they care to stomach. They then try to fix things by changing the portfolio around. The "fix" is usually rebalancing to conservative investments that hold up better in a down market. When the market recovers, that new investment or allocation will be left in the dust and returns will be forever lower. Selling out of aggressive investments in a down market to go to conservative investments is the classic sell low and buy high. The lower returns lead to justifications like "I didn't know if the market would recover and I couldn't lose any more money," "I'm getting older and I can't be as aggressive as I was when I was younger," or "The market is rigged."

Defining investment success

Women usually see investing success differently. Women tend to not use the market or some arbitrary benchmark to measure success. They often invest based on actual risk tolerance and goal planning. Why take more risk than you need to for achieving your retirement goals? All this strategy will do is set you up for future headaches and sleepless nights. By implementing a plan, one that accounts for recessions and bear markets, a "fix" to the portfolio when the eventual market drop occurs is unnecessary. Women tend to favor goals-based investing rather than competitive investing. Who cares if your investments were up 30% last year when they are down 40% in the first three months of this year?

The way to be a great investor, regardless of gender, is to be completely honest with yourself about your needs with your money. Then do constant research and monitor how your investments fit into your overall financial picture. Adjust the plan to your portfolio as needed, and not just when the market is down. Stay on top of the changes in taxes, estate-tax environments and the market landscape. Control your costs. If you don't want to manage all of those factors in your investment planning, then hire a trusted and qualified advisor. Then, actually follow the coaching and guidance offered.

Here's a little secret the financial advice community doesn't share as often as it should: the value a client obtains from an advisor largely comes from learning from the mistakes of the advisors' other clients. It's just like your parents told you, and you tell the next generation, if you listen to me, you don't have to make the same mistakes others before you have made. Sometimes, if you have a "Y" chromosome that is easier said than done.

Annuities?

Annuities often perplex investors. Are they the greatest thing since sliced bread? Or are they something cooked up by greedy insurance companies designed to take your hard-earned money in fees? Are they something in between?

Anytime annuities enter the financial-planning conversation, people usually have a preconceived notion about its role. Those opinions may be based on the hearsay of coworkers who have annuities and love them, or perhaps a sibling who bought one and regrets every minute of owning it. Answering whether annuities are good or bad is like trying to answer if a Phillips head screw driver is good or bad. If you need to replace the batteries of a child's toy, a Philips head screwdriver is great and gets the job done. If you need to pull up tile in your kitchen floor, that Philips head screwdriver isn't the right tool for the job. Likewise, annuities are tools for specific jobs.

Many, many types of annuities are out there, and no two are exactly the same. What annuities do offer is typically some form of guarantee and/or tax deferral. Those guarantees are based on the health of the insurance company, not the Federal Deposit

Insurance Corporation (FDIC), so make sure the insurance company underwriting the annuity is a big, strong one with a healthy financial balance sheet. At the time of this writing, the tax deferral was written into the IRS code.

As with all things financially related, things can become a little more complicated. To keep things simple, I will try to focus on the basics. Unusual situations often occur, but for now, let's try to look at annuities from 10,000 feet. Many types of annuities exist, as do many situations for using them. At the same time, some situations do not indicate using annuities in a financial plan.

Immediate income annuity

Many people consider any annuities as an *immediate income annuity.* You hand the insurance company a lump sum of money and they hand you a monthly check for as long as you are alive. The longer you live, the greater the chances of dipping into the insurance company's pocket. If you get struck by a meteor in month two, then the insurance company keeps what remains.

Other options with immediate income annuities exist. You can pick a joint lifetime income option or add a certain period the company must pay, say 10 years. With this approach in place, if the meteor hits you after the first year, then your beneficiary will collect your payments for the remaining nine years. If you live past 10 years, the income stops only after you pass away. Few people opt for immediate income annuities these days. Don't worry if you have one, or if you are considering one.

Immediate income annuities are not all bad. They just seem to work best in situations where people are willing to trade in a lump sum for an income stream. An immediate income annuity will likely obtain for you the highest guaranteed monthly income payment (based on the insurance company), but that higher payment comes at a cost. That cost is less flexibility.

Remember the Phillips head screwdriver? If an immediate income annuity fits your circumstances and you understand how it works, it can be a good investment vehicle. If it solves a problem that you don't have or if you don't understand the product, then an immediate income annuity might be the wrong tool for the job.

Fixed Annuity

The next basic type of annuity is a *fixed annuity.* Fixed annuities look and act very similarly to CDs, but do have some important differences. A fixed annuity will offer a guaranteed interest rate, or sometimes a rate that might move with prevailing interest rates. In my opinion, if you are risk-averse and want to know exactly what to expect, consider a multi-year guaranteed annuity, or MYGA. Make sure the MYGA you invest in has a set interest rate, not some higher first-year rate with a lower rate in subsequent years.

Unlike a bank CD, fixed annuities also offer tax deferral in non-retirement accounts. The interest you earn on a bank CD in a non-retirement account is taxable the year you receive it. The fixed annuity interest, if it isn't distributed, adds to the account — and you pay the taxes later when you take money out of the annuity. If the fixed annuity is an IRA or some other tax-deferred account structure, then the annuity's tax deferral is redundant.

The expected interest you earn with this option is not impressive when compared to the long-term returns a diversified portfolio usually can generate. That earned interest, however, should be higher than an equivalent CD at the bank. Also, you will not see the account value bounce around as you would with a diversified portfolio. This option can fit if you don't need higher returns to meet your planning goals or you just simply can't take any fluctuation in account value. A fixed annuity could perform better than parking money in a savings account collecting dust (and losing value to inflation). You typically have more access to your money than a CD, allowing for some liquidity.

However, the tax deferral does not last forever. The reason annuities can offer tax deferral is because they must "annuitize" at some point in the future. To annuitize is to turn your annuity investment into an annuity income stream. When annuitized, the MYGA works like an immediate income annuity (as I described in the prior section). This transition from investment to income stream is usually forced at an advanced age, sometimes up to age 100. Many people cash in their annuities or draw money from them over time, so the forced annuitization age does not come into play. But you should keep it in mind when weighing a decision whether to use this type of annuity.

Variable Annuity

Investing in a *variable annuity* is similar to investing in a mutual-fund portfolio. The annuity will have a menu of "sub-accounts," which look and act almost identical to an equivalent mutual fund or index. When your investment is something tied to the market (stock market, bond market, etc.), you should be prepared for the account value to go up and down.

The following variable annuity options may appeal to your everyday retirement planning investor.

Investment Only Variable Annuity – This annuity is invested as aggressively or conservatively as you wish. No guarantees are attached to this annuity, and it usually has competitive fees when comparing it to mutual fund/index portfolio counterparts. The main benefit of holding investments of this in a variable annuity is for tax deferral and the potential for higher growth than a fixed annuity.

Inside a variable annuity, you may rebalance as often as allowed, and capital gains are not triggered when you move things around. If you have owned any kind of investment that pays income or dividends in a taxable account, then you have probably had to pay taxes on that money, even if you just reinvested it and never spent it. The investment only variable annuity helps reduce the current drag of taxes on your investment portfolio. However, this annuity usually does not fit well with an IRA or some other type of retirement account that already has tax deferral. Remember, you will pay taxes later, when you withdraw money from the account.

Variable Annuity with a Guaranteed Income Rider – In the insurance world, different options can be added to an annuity. Annuity options are called "riders."

Riders are additional guarantee options that are available to an annuity or life insurance contract owner. While some riders are built into an existing contract expenses, many others may carry additional fees, charges and restrictions. It is important to review the contract carefully before purchasing. All guarantees are based on the claims paying ability of the issuing insurance company.

The way this annuity option works is you take some of your money and put it into a variable annuity, usually invested in a diversified portfolio. You also pick out a rider that will allow you to withdraw a certain amount for as long as you are alive, or for as long as you or your spouse is alive—depending on who lives longer. The money you take out is your own money first until it runs out. If you draw all of your money out, and follow the contract rules, the rider kicks in and you continue to take income from the insurance company's pocket.

This annuity might sound like the immediate annuity option, but it differs in one important way. If you are drawing money out of the annuity and die with money still in the contract, whatever is left passes to your beneficiaries. Or if you have a spouse and you both die with money left in the contract, the money goes to your beneficiaries. The insurance company does not keep the balance of your investment.

If you play by the rules of the annuity contract, you can draw or pass along all of your money. If you outlive your money, then you dip into the insurance company reserves. Sound too good to be true? While it isn't too good to be true, it is too good to be FREE. The income guarantee option comes with a cost, one that needs to be understood and weighed when making decisions. These annuities carry higher costs when compared to other types of annuities because the insurance company has more to lose. Pluses and minuses come with every investment option, annuities included.

Different annuities can fit certain situations. The potential drawbacks of annuities might include extra fees and expenses, limited liquidity and some tax considerations. Is an annuity the right tool for the job in your financial plan? Maybe. To uncover the right option for your situation, talk to an unbiased professional who is indifferent to what tool you use to accomplish your goals. Keep in mind: when you go to a hammer salesman, everything looks like a nail, even if it's a job for a screwdriver.

Fixed and variable annuities are suitable for long-term investing such as retirement investing. Gains from tax-deferred investments, like annuities, are taxable as ordinary income upon withdrawal. The guarantees are based on the claims paying ability of the issuing company, not FDIC coverage. Withdrawals made prior to age 59½ are subject to a 10% IRS penalty tax and surrender charges may apply. Variable annuities are subject to market risk and may lose value.

My term policy is expiring

If you purchased a term insurance policy back when you were in your 30s, then you might have a decision to make about your life insurance. If you haven't yet, you will start to get notices that your term life insurance policy is expiring. You have three options.

Option 1

The first option, if the life insurance policy allows, is that you can convert it to a permanent life policy, or perhaps you can continue to pay for the policy at gradually increasing rates each year. Those options are expensive and you will likely experience sticker shock when you see how much it will cost each year. If you obtained the term life insurance policy when you were young and healthy, then the rates you are used to are far below the current market rate of life insurance.

When does this option make sense? If you, unfortunately, have a need for insurance, but are currently uninsurable, this option might be invaluable. Perhaps you won a battle with cancer or some other medical issue that makes passing the required medical evaluation to get a brand new life insurance policy difficult or impossible. Do you still have children to put through college or a mountain of debt that you keep ignoring? If so, you probably need some type of coverage. If you can't go out and get a new policy, this type of policy might make the best of a bad situation.

Another reason to convert the policy or continue to pay the increasing premiums is if you have a terminal illness. If your $500,000 term policy is going to jump from $600 a year up to $15,000 a year or more and your life expectancy is only a few years, that cost might be worth paying. It is a sad reality, but one that must be addressed if this situation rings true for you.

Option 2

A second option is to replace the term insurance policy. Perhaps you apply for a new term policy or some other type of insurance. This approach assumes that you are insurable and have the ability to pay higher premiums than you are used to paying. Perhaps the new policy would fit into your estate planning or provide some type of legacy. Just be aware the premiums, even if you qualify for the best health ratings, will be significantly more expensive than your current payments.

Option 3

The last option, one that will make sense for hopefully most, is to let it go. Don't continue the new crazy high premiums or go out and purchase a new policy that could be expensive. You might be saying, "What do you mean? I wouldn't have insurance. I thought everyone is supposed to have insurance." The purpose of life insurance is to replace your income for your loved ones when you are not around to earn it. If you have accumulated significant assets, paid down your debts to lower levels (like your mortgage) and your family is grown and self-sufficient, then you don't really have a large need to replace your income. If you fit this scenario, you might want to self-insure rather than pay an insurance company to offset that risk for you.

Granted, dying would be sad and tragic. But, from a financial standpoint, who still depends completely on your income? If you have dependents or large financial obligations (*cough* college expenses *cough*) coming soon, then you still have a need for life insurance. Hopefully, the need for insurance has decreased and you might only need enough coverage to get you over the hump.

Letting a life insurance policy lapse can be risky. The risk is you die suddenly the day after your policy officially terminates with no grace period left. Anyone can get struck by lightning at any time. Letting go of your life insurance coverage might not be a bad thing. Don't worry if your coverage is expiring and you can't afford or don't qualify for continuing coverage, you may no longer need it. Letting a life insurance policy lapse is a personal decision. Contact a qualified advisor to see if it makes sense for your specific situation.

Watch your asset… allocation

By the time people are planning for the big 6-0, the focus turns to gearing up for retirement. This situation mirrors a last-ditch attempt to go on a crash diet and hit the gym four times before beach/pool season. People tend to dwell on how they should have done more and started their retirement planning earlier. They will go through a mental highlight reel of all the bone headed financial decisions they have made over the years. Remember buying that boat years ago or investing in Pets.com?

At this phase of life, before reaching an age with a "6" in front of it, people are entering the Retirement Red Zone. No matter how much money you have, you think you could have done more to prepare. What's done is done. Stop living in the past and look toward improving the now to get ready for the future.

Retirement is coming, and it's time to make serious preparations. When it comes to investing their nest egg, sometimes people try to do too much. Or, just as precarious, they try to protect this nest egg too much.

The income faucet

All of our working lives, we are used to getting paychecks or direct deposits. Most people don't look at pay stubs and couldn't tell you how much their health insurance costs or how much they pay into taxes or Social Security on a monthly basis. In fact, a lot of people don't really know how much their employer is depositing in pay into their account each month, especially if they are not the person responsible for handling the monthly bills. You have become accustomed to your pay going into your account like clockwork. For roughly 35 years, the money comes in after you punch out. The thought of that faucet being shut off can cause great anxiety. How do you fund your lifestyle without a steady income? Or rather, how do you do it without the higher paying job to which you have become accustomed?

The closer you get to the shutoff of the income faucet, the more importance you place on that 401(k) or investment statement. The pressure is on. The window is small. The retirement money you have been saving and investing all these years is now at the forefront of your thinking. You feel the pressure to make sure you make the right moves to make it go the farthest. Because one mistake now seems like it could consign you to eating cat food and living in someone's basement for the rest of your life.

Time to act

As fearful as you are of making a bad move with your retirement money, you must act. Review your allocations. To some investors, this time is one for becoming (way too) conservative in their investments. They say, "I'm older now and I can't afford to take the same risks I did when I was younger. I better dial all the way back on the risk scale." Others might say, "I didn't save nearly enough and now I need to turbo-charge this portfolio to get some extra return and make up the difference." Neither approach is prudent. Both approaches are fraught with unintended consequences that can diminish your retirement account.

If you go hyper-conservative with your investments close to your planned retirement, then you are robbing yourself of future potential growth. If you go all cash/bonds/CDs to be "safe," you will not see much, if any, volatility. Bonds do still carry risk, but far less when compared to stocks. Your statements will be steady and perhaps show a slight increase over time. However, your investments will lose value in one important and often overlooked way: purchasing power. The $500,000 nest egg today, which is worth $500,000 in 30 years, will purchase far less in goods and services. Inflation will chip away at the value of your portfolio, and the effects on your retirement could be catastrophic. Just think about the change in the costs of healthcare, cars, homes, stamps, and everything else that's in your budget over the last 30 years. Actually, don't worry about stamps; they won't exist much longer.

If you go to cash, you might think you are treading water. In reality, you are sinking in a sea of inflation. The effects just won't be felt until it's too late to do anything about it. Do not invest out of unchecked fear of risk. You also should not invest based on greed, either.

If you are kicking yourself for not investing enough earlier, you are not alone. No matter how much money people have, they always wish they did more sooner. This feeling, which is quite prevalent, can lead some people to make one of the biggest possible financial mistakes: trying to make up for lost time.

Trying hard to catch up

People who think they need more money to retire sometimes try to bridge that gap by investing more aggressively. This strategy involves investing more money into stocks or even into very specific investments like individual stocks or sectors. Do not fall into this trap. Nearly all investors who decide to go hyper-aggressive end up following trends and chasing returns. They try to jump on bandwagons and fool themselves into thinking they will be able to exit at the first sign of trouble. This stinking thinking leads to the path of destroying a portfolio and a retirement plan. Eventually good luck runs out, if you had any to start with, and this strategy usually fails miserably. This approach amounts to trying to get ready for beach season by taking some magic diet pill and only eating half an apple a day. It is not healthy and will have some major consequences that will force difficult decisions. No easy fix is available for an underfunded retirement.

One fix, just not an easy fix, is to update your expectations. You will need to spend less and/or work longer. Adjusting your expectations can mean some difficult and painful decisions. But you must face this reality if you want a realistic and fulfilling retirement. You cannot eat cake and drink soda for every meal and expect to have six-pack abs. Invest in a portfolio allocation that is in line with your risk tolerance and considers your financial plan. Just be aware that asset allocation does not guarantee profits or completely protect against losses. Do not try to cut corners or out-think a market that has an amazing way of humbling even the smartest investors. And most of all, be realistic about what you have and what you can afford to do with it.

Charitable giving

The benefits of charitable giving are obviously to help a cause and help others. A secondary benefit may be a tax deduction. To be clear, the benefit of the deduction is never greater than the contribution. Charitable donations are never a net financial gain. Many of my clients give to charity and we usually discuss a lesser-known option for how to give in the most efficient way possible.

Typically, people will write a check to a charity and then take the deduction in their next tax filing. A better way to handle the situation if you are already giving is to look into a Donor Advised Fund.

A Donor Advised Fund is a philanthropic vehicle that allows you to contribute to it now and take the tax deduction immediately, then direct the giving later. You could donate the money out over a period of many years later. Usually the charity must be a qualified organization and you typically have to meet a minimum giving requirements each year.

A GREAT TOOL

One of the most efficient ways to fund this type of account is using appreciated assets. If you bought a stock that has gone through the roof creating a large amount of unrealized capital gain, you can gift it to the Donor Advised Fund. You get the tax deduction now for the full value of the shares, not what you paid for it. You retain control of the money and direct the donations later. Of course, the charity does not care where the money came from. To the charity, appreciated stock is appreciated as much as a cash donation.

This tool may be great if you are already giving to charity or intend to. The large tax deduction in the year of your transfer can have many potential tax and estate benefits. It could help offset the sale of a business, or an unusually high income year, or countless other scenarios.

For all intents and purposes, the account looks and feels like a foundation, without the administrative headaches and overhead costs of managing a true foundation. You can even name the account whatever you would like. Your charity could receive checks from the "Conroy Family Foundation."

Lastly, you can transfer the ownership of the Donor Advised Fund to beneficiaries to finish the giving. If you pass away before all the money has been distributed, you can name your children to take over the charitable giving. You could also name a number of organizations to get the money after your death. These funds can be quite flexible.

Keep in mind that you will enjoy the deduction when you fund the account, not when donations are made. If you are already giving to charity, a Donor Advised Fund is worth exploring. Ask a qualified advisor how this type of gifting strategy could compliment your financial and tax planning.

Decisions

Now is the time to sharpen your investing skills and financial planning prowess. The lessons, if they are to be learned the hard way, get more expensive at this time in your life. It does not mean that a setback is completely devastating, but it will cost more than it did a decade or two ago.

You should understand what your expectations are with your money and what your strengths are when it comes to managing your finances. Sometimes the best strength to managing your money is to accept than an expert may help you take things to the next level.

Insurance decisions seem to pop up again around this period of time. It might mean insurance that has been purchased years ago is going away. Or it might mean investing inside an insurance based structure is now a consideration.

You also should start living within your means. Plan for the future. And be smart with your hard earned money. Be prepared because the next decade will be a big one in determining how you live the rest of your life.

How to Pick a Financial Advisor

Not everyone should work with a financial advisor. That statement might sound odd coming from someone who built his entire career — and has a passion for — advising people on their finances. But it's true. Here is a list of reasons why you should not hire a financial advisor and a list of people who should not bother with someone in this profession:

1. *You want to "beat the market."* It won't happen. No one can beat the market every year, every quarter, or whatever time frame you choose. If your reason for working with a financial advisor is to achieve that goal, then you will eventually be disappointed 100% of the time.
2. *You want an investment buddy to pick stocks with.* Get a stock broker, if you can still find one. Or, pick one through some discount brokerage firm. Just make sure you are spending fun money, not funds included in your long term financial plan.
3. *You want someone to tell you when to sell out before a downturn.* Expecting this outcome is similar to trying to beat the market on the upside. No one ever can accurately and CONSISTENTLY predict market downturns. Consistently is the key term here. Even a broken clock is right twice a day.
4. *You want someone to approve of your terrible decision-making.* Many people need a financial advisor to reassure them they are making good choices. The only problem is, sometimes

they are making terrible choices. These folks will keep interviewing advisors until they find one who approves of their foolish ways. Then they can hide behind their questionable decisions by saying their advisor went along with it!

5. *You cannot bring yourself to pay for anything, let alone advice.* If every conversation with your advisor turns into a battle over fees, save everyone the aggravation and do it yourself.

Good reasons

You now know some reasons why you should not work with a financial advisor. Let's talk about a few reasons why you should:

- You would like help and guidance in making financial decisions.
- You don't have the time to do it right.
- You don't have the expertise to do it effectively.

By working with a *good* advisor, you should cut down on mistakes and put yourself in an improved financial position. Your future advisor has seen all kinds of investor mistakes, so it makes sense to tap into the experience of hundreds of other investors.

You can find good advisors in every part of the financial services industry. Good advisors work in banks and at brokerage firms, or operate in an independent capacity. Some good advisors don't have any credentials or certifications. Some good advisors get paid through commissions, through fees, or through a combination of the two. The point is, just because the advisor you are interviewing doesn't check off one or two boxes on your search criteria doesn't mean he or she is a bad advisor. That being said, you can benefit from looking for certain things in your financial advisor.

Here is a list of things to consider, though none of these should be a total deal breaker if you think you have found the right person for your situation:

Where do they work?

Advisors who are employees of bigger institutions, like banks or Wall Street investment firms, can have potential conflicts of interest attached to that relationship. Advisors who are *"Independent"* typically are the most flexible with their recommendations, and they are usually objective when working with their clients. They typically do not have management or corporate pressures influencing the way they advise or set revenue goals.

Is the advisor a fiduciary?

Up until recently, many investors were not familiar with the role of a fiduciary. A fiduciary is someone who must put clients' interests ahead of his or her own, even if it means a financial detriment to the advisor. Put in clearer terms, fiduciaries worry about your needs, not their own.

Here's an overly simplified example of how a fiduciary could affect financial decisions. A client meets with an advisor and they discuss two investment options for moving forward. Option one compensates the advisor more and is suitable to the client. Option two compensates the advisor less money, but is a better fit for the client.

A fiduciary is under an obligation when providing advisory services to pick what's best for the client in all circumstances.

Qualifications and certifications

The old saying goes, "Clothes don't make the man [woman]." And while this adage may be true, when first meeting a financial advisor, the certifications they hold can mean a lot. An alphabet soup behind their name should encourage you to ask what each one is and how they acquired it. Ask what requirements are needed to maintain these designations.

The past and current gold standard designation for financial planners is the CFP® or CERTIFIED FINANCIAL PLANNER™ professional. This designation means the person holding this certification operates under a fiduciary capacity and has demonstrated proficiency in a variety of financial subjects, including college planning, retirement planning, insurance, investments, tax and estate planning. This designation checks off two boxes (fiduciary and qualifications).

How do they get paid?

Don't be afraid to ask how they are compensated and you should not be confused by the eventual answer. Advisors are compensated two ways: fees and/or commissions. Both have negative connotations, but should not if you are receiving more in value than you are paying in dollars. Fees are typically paid using a percentage of the assets under management. When your account value rises, both of you prosper. When your account loses money (hopefully temporarily), you both take a hit.

The other main compensation method is commissions. In some people's minds, the only thing worse than a fee…is a commission. While this perception may be true in some cases, in others it is unavoidable. For example, life insurance is a commission product, but very necessary in a lot of situations.

A newer option is an hourly or flat fee for planning approach. The advisor charges a flat rate for the services rendered, and does not get paid a commission or percentage. The advisor provides advice as a consultant would, with the investor bearing full responsibility for implementation.

I won't comment on what you should specifically pay to any advisor because it is highly subjective and different advisors provide different services. The main takeaway is that you understand what you are paying and what services are being provided. If you have any concerns or questions, just ask the advisor. We get these questions all the time and we are happy to help you understand what we are doing for you and how much we get paid to do it. At least, I am happy to have those discussions.

How long in the business?

While I don't condone age discrimination, I do understand the concern with letting a recent college graduate, who is still pretty green, handle your possible $1 million portfolio. I didn't know as much when I started out as I do now. Of course, if that same college graduate is on a team of advisors, then the other members will overcome any weaknesses caused by the lack of experience.

Just as importantly, how long does the advisor plan to stay in business? I would be concerned if the advisor I was interviewing fought in World War II and does not have a succession plan, especially if I'm in my 40s. Make sure you understand where the advisor you are interviewing came from and where they are headed.

Is there chemistry?

Now, I am not suggesting you have to date this person. But you should want to spend time with this person, as the role they fulfill will require meetings and frank discussions. A decent personality fit is necessary if this professional is going to help you with your finances for many years to come.

While the advisor doesn't need to be your best friend you chat about the last rose ceremony on The Bachelor, you should feel a certain degree of comfort and ease of conversation with the person. The minimum bar should be mutual respect between you and your advisor. If you do not feel you respect the advisor, or he or she does not respect you, then find someone else. Keep in mind: you could spend hundreds of hours, over the next several decades, working with this individual. The relationship matters.

A partner for all seasons

In the end, the best advisors are the ones who can demonstrate an ability to improve your finances. They go through your life, finances, wishes, dreams, and setbacks in more detail, more often, and with more experience, than the average person has the time or inclination to do. They are not your cheerleaders, but rather trusted professionals who are willing to tell you what you sometimes need to hear versus what you want to hear.

Summary

Advisors are with you through up markets and down, and provide objective guidance and perspective that allows you to weather the inevitable storms. They make sure you are doing everything you can to best achieve your goals; they try to help you when life throws curveballs. Advisors don't necessarily need to work at an independent firm, with a CFP® designation, and charge primarily through fee-based methods…but it doesn't hurt.

Your 60s – The Retirement Chapter

Goals for this decade:

- Realize your retirement date is a checkpoint, not the finish line.
- Understand what The New Retirement will look like.
- Determine what *your* retirement will look like.
- Understand the three legs of your Retirement Income Stool.
- Avoid overreaching for income in retirement.
- Uncover the truth about vacation properties.
- Ask your parents about their estate plan.

The financial decisions when you are in your 60s are the biggest ones of your life. No pressure.

At this point in your life, you likely have more money than ever before. Of course, you also have more investing and financial experience than at any previous point in your life. The timeline toward a retirement goal is also short and getting shorter.

With all this money and investment experience, every future financial decision should be sound and successful, right? Unfortunately not. The stakes are high, and people tend to become deathly afraid of making mistakes as they approach and enter into retirement.

Mistakes when you were younger didn't cost as much when compared to mistakes you might make now. Your portfolio is bigger and the future is still unknown. It is a minefield and one misstep seems life-changing.

As intimidating as this situation sounds, it doesn't need to be. Take your finances seriously. Do not kick the financial can down the road or stick your head in the sand. Be mindful of the importance of this time on your personal and financial wellbeing.

The good news is that many people before you have successfully walked down the retirement path. The path is clear and ready for you to follow. If at some point you start to lose the ability to navigate on the path toward financial success, many people and resources are available to help guide the way. Perhaps working with an expert will help keep you on the path in the first place.

Don't try to be a surgeon

You do not have to design for and implement a retirement plan by yourself. Nor should you try to plan for retirement by yourself for the same reasons surgeons don't operate on themselves.

Learn from the successes and failures of previous retirees. Tap into the expertise of professionals who help plan retirements for a living. They have seen hundreds of cases similar to yours.

Making all of the decisions yourself without the benefit of someone looking over your shoulder can lead to wandering off the retirement path. It is easy to do and happens quickly.

Stay focused

I have spent a career guiding people on the path toward retirement success. I also have spent a career watching people wander off the path and toward financial headaches (to put it mildly). No one plans to fail at retirement, yet it still happens.

Retirement is a large subject and each of its aspects could be enough material for its own book. I will attempt to cover the main topics and help get you thinking about some of the important nuances of retirement planning. The goal is to be aware of the decisions ahead of you and their impact on your money.

The more aware you are of what's ahead will help tremendously as you continue your financial journey.

It's not a finish line

People tend to think of retirement as the main financial goal of their 60s. Retirement is earned through blood, sweat and tears — and years of saving. To many, retirement day marks reaching the finish line.

Many people prepare for crossing the retirement finish line by trying to pay off debt and fix up their house. They get new cars and appliances. They will soon be on a fixed budget, they think, and they seek to get these expenses out of the way now.

However, in my experience, this approach can amount to a thinly veiled attempt at overspending. They will justify a newly renovated kitchen with all new appliances by saying they need to do it now before they retire. Or, perhaps, they take a series of expensive vacations with the justification that they can't do these things after they're retired. Be careful to distinguish necessary spending from unsustainable spending with questionable justifications.

The difference is huge and it could have big implications on your retirement. Buying a new refrigerator because your current model broke, and you need to keep your food cold, is one thing. But replacing a perfectly good refrigerator with a fancy, new, expensive one because it MIGHT break in the future doesn't make sense.

Downing doughnuts

Blowing a bunch of money and blaming it on retirement is like eating a dozen doughnuts before you run a marathon or some other foot race. You think, I'm about to go for a long run so it's acceptable to eat all of these doughnuts. I need calories for the run. All that binge eating really does is slow you down and impair your ability to accomplish your goal.

Let's put retirement into perspective. It is NOT a goal that has one date, the retirement date, and it's done. The goal for retirement is to STAY retired. Whatever the age of your planned/hopeful retirement, consider it a checkpoint as you head into the next phase of life. The real test of a retirement does not occur on the day you quit your job. The real test is to still be retired years beyond your last day at work.

Achieving this result means making your money last through retirement. I am not recommending you go ultra-conservative because your target retirement date is just a few short years away. I am suggesting that you keep the real goal, a long and enjoyable retirement, in mind as you draw closer to that retirement date. If you are mindful, odds are your retirement will last at least 20 or 30 years, and possibly longer.

At this point in your life, your timeline for investment objectives is not three years or five years, or however many years until you plan on retiring. Your investment timeline is actually 25 or 35 years, or longer.

Keep this reality in mind when you are making decisions and thinking about how your retirement resources will look. Don't eat that dozen doughnuts before you start the race. And don't think that retirement date is the finish line.

The new retirement mindset

The days of retiring into the sunset and spending the rest of your afternoons sipping iced tea on the porch are over. That vision is how your parents or grandparents pictured retirement. The mindset of past generations, in retirement, used to be, I've worked hard all of my life and now I'm just going to take it easy. Retirement, the old version, would be a time to do…nothing.

How does that sound? Depending on the day you've had today, "nothing" might sound pretty good. In reality, this type of retirement might leave a lot to be desired and is relatively unfulfilling. Simply put, people don't work hard growing their careers or building their businesses to only someday do…nothing.

Lots of baby boomer retirees are figuring this out. About 10,000 baby boomers start their retirement every day, and most of them are healthier than their parents were at the same age. Most of them have enough in their retirement accounts to enable them to make choices about how they spend their time. They may choose to volunteer, start a second or third career, or go back to school. The world is their oyster.

This new retirement, Retirement 2.0, is about doing something or perhaps several things that make you happy, on your terms. When you are no longer dependent on a paycheck, new doors begin to open to you. Options are now available that you didn't have the ability or interest to entertain earlier in life. The new retirement is a way of thinking. It's doing what you want to do, when you want to do it, and the way you want to. (How nice does that approach to life sound?)

Relax a bit

If you really like what you do, but just don't want the same demanding schedule, then maybe retirement means cutting back on your work responsibilities. Before retirement, that more relaxed approach wasn't possible because you needed to earn all the money you could. Now that you're more financially stable, maybe cutting back your income won't matter.

Perhaps you really like the outdoors and you want to volunteer at a nature camp. Maybe you never had time to do that while working 50 hours a week on government contracts. Perhaps you want to finally get that RV you've been talking about for the last two decades and visit the 48 continental United States. Such a move would have been impossible when you had 20 patients to see a day or perhaps an impossible project deadline or a classroom of screaming second graders waiting to be taught.

Retirement 2.0 permits you to do more of the things you want to do and less of the things you don't. I'm going to let you in on a little secret I have learned in my career of working with retirees: People who look at retirement as a time to do nothing get old fast.

Of course everyone ages numerically at the same time table, but the sedentary retirees seem to lose their energy, mental acuity and passion for life much faster. Those who take retirement as a chance to focus on the activities they enjoy most, seem to live longer and happier.

Painting a complete picture

"The heart is happiest when the head and the hand work together," said comedian Jay Leno. This observation is not part of a formal clinical research study. It merely matches what I have seen working with many pre- and post-retirees over the years. Retirement, whether you leave your current job or stay where you work, is a new financial mindset.

Here is a revelation one of my clients had that improved his quality of life: Jerry was an older widower who got up each morning and commuted to the same job he had done for decades. His co-workers kept asking Jerry when he was going to retire. After all, his daily grind started very early in the morning and didn't end until around supper time. Jerry had been a great saver all his life and made decisions that put him in a financial position to make retirement possible. His friends would talk about retiring and wondered why Jerry still worked. Who wants to work when you can retire, right?

An incomplete picture

Jerry and I sat down and talked about what was important to him and how we could make his finances work for that plan. He described the situation and asked about retirement, but I could tell he wasn't painting a complete picture for me. I said, "Jerry, you can retire tomorrow if you want to. You have enough money. But, do you really want to?"

This inquiry started a long conversation about how Jerry really liked what he did. Work gave him purpose and he liked his co-workers. Jerry wasn't sure what he would do if he didn't go to work every day. He felt some kind of obligation to retire because that's just what people do. I explained to Jerry that he already is "retired." He gave me a funny look.

What is your retirement?

Jerry was already retired in the sense that he controlled his own destiny. He had the financial ability to do whatever he wanted to do. That ability enabled him to quit his job tomorrow, if he wanted to. Or it meant that he could go to work every day knowing that he is there because he WANTS to be there, not because he HAS to be there. He could keep working as long as he enjoyed it and when it's no longer a positive experience, then find something else.

Jerry's eyes lit up. I had given him a new way of thinking about retirement. This new thinking was a game changer for Jerry. He called me a couple weeks later and said he enjoys working even more now since he knows he is the one deciding to be there.

For some people, retirement means getting up early in the morning and doing what they love every day, even if it's the same thing they've done their whole working life. For others, retirement might offer them time to pursue hobbies or other interests they didn't have time for when they were working. Most people look forward to their retirement. They have been dreaming of it for years and years. But when they are asked what they actually see as their retirement, they offer me blank stares.

Couples and individuals will work their entire lives toward a goal of "retirement." Yet, they don't really know what that will be or look like. They may become overwhelmed at the idea of being able to do anything they want. They have so many options to pick from. Armed with an infinite amount of potential paths to go down, how can they pick one, much less the "right" one?

Finding a new "happy"

Many people are programmed to think about what others think life should be. For a lot of people, life is filled with responsibilities and obligations to family and others. When you have lived your whole life working and trying to survive each day and suddenly the sky's the limit, how do you pick what will make you happiest?

The answer doesn't have to be difficult. Pick what makes you happiest in your life currently and plan on doing more of that. It's that simple. If spending time with your family makes you happy, maybe retirement will give you more time to visit with them. If sitting next to a pond with a fishing rod in the water makes you happy, then try to find all the best fishing spots in your state. Maybe finding antique furniture at consignment shops on the weekend is fun. Then create a little business where you find, fix and sell old furniture. Maybe you like the classroom and teaching children, but want the flexibility of being a substitute teacher. Now you can pick and choose the days you work without the obligation of teaching throughout the entire school year.

Retirement isn't set in stone; you can change what your retirement looks like. You can change it as many times as you want. Maybe what you thought would make you happy gets boring after a while. Then do something else. Because it's not a job within a career, the flexibility is greater than most people can imagine. Life works best when you have the ability to adjust and change. Flexibility with your retirement expectations will go a long way in taking that pressure off finding the *"perfect retirement."*

An expense problem

Nearly everyone's line of attack with retirement is the same. Do I have enough money or how much do I need to have saved up? These questions put the cart ahead of the horse. I get asked all the time from people who are not clients (and I know nothing about their financial background), "How much is enough to retire?"

They look puzzled when I tell them, "I don't know." I give this answer because retirement is not just about how much money you have saved and invested. Yes, money is an important first component to the retirement equation. However, retirement is not only about how much money you have, but also about how much money you spend.

How much do you need on a monthly basis to keep a roof over your head, food on the table and access to healthcare? Once you determine your expenses, *then* you can start to worry about how much money you have saved and if it's enough.

I have clients with a couple hundred thousand dollars and they are happily retired and should be just fine. I also have clients with several million dollars and they are nowhere near retirement-ready. How can one client have a fraction of the net worth of another and be able to retire while the wealthier client cannot? The millionaire spends money like a multi-millionaire.

If all you need to live is a couple thousand dollars a month and your Social Security checks cover it, then you might be fine with a much smaller nest egg. If you have a mansion and an $8,000 annual bill for mulch every spring… Social Security benefits won't come close to cutting it. Retirement is a complicated situation with many angles that must be considered. Still, I will try to provide an over-simplified solution to a difficult-to-answer question…

How do I retire?

This question is the big one everyone wants the answer to.

Find your monthly budget.

The first step is to decide what retirement will look like. Sit down, with your partner, if you are in a relationship, and decide how you will spend your time in retirement. While you can say you will relax and do nothing, my clients who do something are always happier.

Picture what your retirement will be. That picture only needs to be clear enough to attach a monthly cost to it. Will you move, will you stop working and/or will you take up an expensive hobby? Now calculate what it costs to maintain this lifestyle on a monthly basis. Caution: I have seen too many people plan with unrealistic numbers. Here is a list of budget-planning pitfalls to avoid:

- **I will spend less money in retirement – False.** Do you spend more money on the days you work or the days you have off? When every day is a Saturday, you will have much more time on your hands and that creates the opportunity to spend more money. You will spend at least what you are used to spending currently. You might run to Home Depot to finish that house project you didn't have the time for all those years before you retired. You may decide that the old furnishings need to go because you finally have time to realize how old your living room sofa really is. You now have time to meet friends for lunch, and so on.
- **I will continue to pay the same cost for healthcare as I do now – False, maybe.** If you are lucky enough to have an employer that will continue healthcare coverage into retirement, that is fantastic. Most people must obtain health insurance on their own or, if they are over 65 years old, secure Medicare and a supplemental policy or advantage plan. By the time this book is published, healthcare might change a couple of times so I won't get into specifics. The point is to research healthcare costs and get an accurate number. Do not settle for a "guestimate."
- **I will create a new budget and live within it – WAY FALSE.** This fallacy might be the biggest risk to your retirement, assuming what you think you might spend in retirement using estimated numbers. Don't guess at this number or write down a list of things you think you will spend. The most accurate way to project what your budget will be in retirement is to find out exactly what you spend now each month.

How to determine your actual budget

The easy way to determine how much money you spend each month is to find out what your net take home pay is. This amount is what hits your checking account after your retirement savings, healthcare, taxes and all the other line item deductions to which no one pays attention.

Take that amount and subtract any systematic savings in which you may participate. If you transfer $500 to your investment account with your advisor or your online brokerage, take that $500 out of the budget. Be honest with yourself. Are these funds you, truly, will not touch? Sending money to savings only to spend it later in the month doesn't really constitute an automatic dedicated savings plan.

The actual budget number should be your direct deposit amount minus automatic savings.

From saver to spender

That total monthly net-income amount, the amount that goes into your checking account, is your budget. That amount is the money you can, and probably do, spend each month. Remember we take out the savings because once you are retired you are no longer a saver; you are a spender.

Do not try to explain how the number was higher this month because you needed new tires, the washing machine went up or whatever one-off expense you had inflated the number. Our lives are regularly filled with one-off and unplanned expenses, and those expenses need to be a part of your budget. Even if it is the non-fun money you spend, you still spend it.

The Retirement Income Stool

Next, how much income will you get in retirement? There are three legs to one's Retirement Income Stool:

1. Social Security
2. Pension
3. Savings and Investments

Social Security

To many, Social Security is the largest source of income in retirement. You must know the lasting implications of when and how to turn on this income source.

Timing of Social Security Benefits

Generally speaking, if you are healthy, it almost always pays to wait as long as you can (until age 70) to take Social Security benefits. Social Security benefits grow each year you do not take it, capping out at age 70. Don't wait until past 70 because it will not benefit you. At this point, you are just leaving money on the table.

The breakeven point of where waiting as long as possible makes sense is usually living past age 82 years old. If you have a more likely chance of living past 82 years, then it typically pays to wait. If you have a realistic reason to believe your life expectancy is not that long, then maybe consider taking it earlier.

Many retirees and soon-to-be-retirees find it difficult to wait. The goal for most people, if waiting until 70 is not an option, is to at least reach your Full Retirement Age (FRA). The FRA is based on the year you were born and for most people reading this section is between 66 to 67 years of age. This information can be found on your personal Social Security Benefits Report.

A big reduction

Taking your Social Security Income at the earliest age possible (62) results in a large reduction of your monthly payment when compared to your Full Retirement Age (FRA). The reduction can equal 30% or more in some cases.

I have seen many very healthy individuals with long life expectancies take Social Security as soon as they turn 62. They receive a reduced monthly benefit for the rest of their lives. The math does not usually work out. They tell me things like:

"Social Security might not be around forever."

Or

"I'll save and invest the payments."

The odds that an individual or couple will take 100% of the early monthly benefits and save every dollar is next to zero. When you have that money sitting around, it is too tempting or too easy to find uses for it. If only people could successfully retire on good intentions.

Spousal Benefits

Sometimes married couples are surprised by how spousal benefits work. Perhaps one spouse did not earn enough credits to qualify for Social Security. Or their career was short to stay home with the children. This couple might not be aware of options available to them.

This lower income earning spouse can take the higher of the following:

- His/her personal Social Security Income Benefit, or
- Half of the spouse's larger Social Security Income Benefit

They can take whichever is higher, and it does not reduce the benefit their spouse receives. This approach does assume certain age and other considerations, so do your homework.

In the future, if the spouse with higher benefits dies, the other partner, the one with lower benefits, steps into the higher spouse's benefit. The total household's Social Security benefit would be lower. Instead of two benefit payments, the payment becomes just the higher one of the two.

An example

Here's an example: John and Mary are researching Social Security Income options. After going to the Social Security Benefits website online they print their reports. John is eligible for $3,000 of monthly benefit at his FRA. Mary is eligible for $700. They share the exact same birthdate.

Mary has two options. She can take the $700 she qualifies for based on her work history or she can take $1,500 (half of John's benefit) without reducing John's benefit. The decision is pretty easy.

Other Social Security Income strategies are available to John and Mary. Many different combinations to filing for benefits are available. The rules also are ever-changing. Factor in the time value of money and opportunity costs and the Social Security Income Strategy can get extremely complicated. As the individual or couple gets closer to taking Social Security, the need to research the rules or work with an advisor increases.

Given today's longer life expectancies, you would be wise to consider waiting until age 70 before taking benefits. If you can make it to your Full Retirement Age or after before starting Social Security Income, that approach is usually next best. If you are forced to take it at age 62 or some age before FRA, that choice is usually less ideal. An early income application can sometimes be a symptom of a bigger issue with your retirement plan.

The bottom line

Social Security timing is one of the biggest decisions to make when it comes to a retirement income plan. Sometimes as much as tens of thousands or hundreds of thousands of dollars are up for grabs. Give it the time and attention it deserves. Invest in learning the options available and consult with experts to craft a strategy that fits your individual circumstances.

In most cases, I have found the Social Security Administration to be very helpful. Go online to SSA.gov and download your most recent Social Security Statement. Make sure to verify your income history for any discrepancies. Then plan to meet with a Social Security employee, at one of their offices, and discuss the different options and amounts available to you. You will get bonus points if you check with your financial advisor BEFORE making a final decision.

Pension

If you are not married, the decision surrounding pensions is relatively easy. If you are married, it gets complicated. (Isn't that always the way when comparing single people to married couples?)

The main decision with regard to pension income typically focuses on payout options. Single people will just pick the highest amount available. If you are married, a typical pension will provide several options, all surrounding how much residual income for a spouse that outlives you.

Here are some common examples:

- 50% Survivor Income

- 75% Survivor Income
- 100% Survivor Income

As the surviving spouse's residual benefit increases, the initial monthly benefit is lowered. Many schools of thought address how to pick the right choice. The option I recommend the most is the 100% survivor income.

However, the options get more complicated. Factors like the spouse's financial background, the health of both partners and financial resources available to the couple influence this decision. Usually, the larger the dependency on this pension income, the more I lean toward the larger survivor income option.

Coping with loss

A surviving spouse usually finds it difficult to cope with not only the emotional loss of their partner, but also the financial loss of significant retirement income. In many cases, the result is a loss of independence for the surviving spouse, which should be avoided, if at all possible.

Conversely, let's say the spouse of the pension recipient has a terminal illness or perhaps has a lifetime income from a family trust. Factors like those would change the income election for the pension.

Once the pension income choice is made, that monthly income amount for retirement must be considered. Add up proceeds from all other fixed-income sources. Do you own rentals that pay predictable income (after expenses)? Did you produce a hit song or invent something that pays royalties each year? Don't laugh; it happens.

Add up all the regular and dependable income you will receive in retirement. Add up Social Security and pensions and everything else. Don't forget to factor your anticipated taxes on this income (consult with a tax advisor if you need to). Is it enough income to cover your monthly budget? If you're like most retirees, probably not.

Savings and investments

Do you have a shortfall each month of retirement income versus monthly expenses? Don't fret. Most of the population is in the same situation. Take the monthly shortfall and write that number down. You need to replace the money you need each month with income from your investments. How much can you take out of your investments and feel confident that you will not run out of money? As with all things, it's complicated. Here's an oversimplified starting point:

- Retirement age 62 and under – 3% withdrawal rate or less
- Retirement age 63-80 – 4% withdrawal rate
- Retirement age 81 and over – 5% withdrawal rate or more

Does this mean if you are 67 and take a 4% withdrawal rate you are guaranteed to not run out of money? Absolutely not. Many factors help determine how long your money will last. Factors such as the timing of distributions, the asset allocation of your investments and the sequence of returns you experience in the distribution phase. No guarantees exist on how long your money will last in retirement. Please consider these numbers as merely a reference point when planning your retirement.

A REAL EXAMPLE

Let's say you have a $500,000 portfolio invested in a diversified, moderate allocation, and you're retiring at age 67. You can withdraw $20,000 (4%) from your portfolio and feel fairly confident that you can retire without drawing all of your money out.

If all of your money is in an IRA, then the $20,000 of withdrawals is taxable at your current income-tax rate. You won't be able to spend all $20,000. Most people forget this fact. You might get only about $15,000 to spend each year from your portfolio after accounting for taxes. Go back and read the Buckets section of this book to develop a better understanding of distributions in retirement and why taxes matter.

You may be saying, "I can't live off Social Security and $15,000 a year" (or whatever the amount is you can take from your investment portfolio). Then you are like most people in America and are faced with the following decision: *spend less money each month or make more money each month.*

Not many people like those options and must make unpleasant decisions. However, it is important to take action instead of sticking your head in the sand. Not addressing a budget shortfall in retirement will result in running out of money before running out of breaths. When you have no money, and are too old to go back to work, you end up at the mercy of family or society.

If you have children, you might end up in their basement and they'll throw down a couple of cans of Fancy Feast once in a while. If you don't have children, keep your siblings and friends on good terms so you can eat cat food in their basements.

Spending less in retirement

Just because something is simple (spending less than you earn) doesn't make it easy. The first step would be to cut up all of your credit cards. And, I don't want to hear about points. They don't go very far and they will get you in trouble by making you lose track of your spending. Pay for things with cash or with your checking/debit card. If you do not have money for something, don't buy it. Here are some more ideas to get a handle on spending:

1. Write down every purchase.
2. Grocery shop with a list.
3. Cook in instead of eating out.
4. Use coupons.
5. Terminate cable/satellite/Netflix/other subscription services.
6. Find free activities at the library, participate in local tourism events or exercise.
7. *Stop subsidizing your adult children.*

The most important thing about spending less is to keep at it. Just because it starts to work doesn't mean you can forget about it. Stay diligent and keep track of how you're doing. Set new goals and be creative.

Making more in retirement

This approach does not need to be viewed as bad as it sounds. When people think of work, they immediately go back to thinking of the careers from which they retired. That approach does not have to be the case at all.

Perhaps you like what you do and you want to just do a little less on your own terms. Perhaps you are an engineer and you can be more selective of the projects you take on. Maybe you're an accountant and you want to cut down to two days a week, or only work during the lucrative tax season each spring.

If you want to do something different entirely, that's great, too. The economy has been shifting for years to a "gig" economy. The gig economy is all about jobs with a small amount of commitment like being a delivery person or designing a company's logo.

You can pick and choose when you do these "gigs." For example, ride-sharing service drivers can choose where they drive and when they work. It seems like half the Uber drivers I have encountered are retirees who enjoy conversation with new people.

Fishing for fun

Another example would be a client of mine who is a wealthy dentist. He has more than enough money to maintain a fantastic retirement. A few days a week, he works in the fishing department of an outdoor store. When I asked why he was working to make such a small, part-time hourly wage his response was great.

"Joe, it gets me out of the house and talking about something I'm passionate about…fishing. I love talking tackle and bait. People come in and I can set them up with the right rod and rig. It's great!"

His response made perfect sense. Then he added a bonus benefit, at least for him: "It also gives me some time away from my wife each week." That part also made sense to me. It's difficult on a relationship when two people sit around and stare at each other all day. Absence makes the heart grow fonder.

Getting a part-time job can often come with a large hurdle to overcome.

Semi-retirement taboo

Some people may feel like a part-time job would be a hit to their ego. If you are a corporate executive with a prestigious career and making great money, what will people think if you are driving people around in an Uber? Would people in your social circle think less of you or wonder if you hit hard times?

Some people may attach their own stigma to that scenario. But, guess what? When Sunday evening rolls around and they start getting heart palpitations from the thought of another work week, who cares? You have kissed the Sunday scaries goodbye.

Retiring to a slower pace and simpler, more meaningful path should not have any stigma attached to it. The only reason others would turn their nose up is because they are jealous that they cannot make that jump yet. To test my theory, try the following experiment.

Talk about retirement plans with your friends or coworkers. I guarantee (which I'm not allowed to guarantee very much) that 99% of people will talk about how much they wish they could retire. People will be focused on jealousy when you shift to this next phase of your working or semi-working path.

Retirement-planning summary

1. Find out how much you will spend in retirement.
2. Determine how much retirement income, after-taxes, you will receive.
3. Cover the potential shortfall with investment income and/or a job you like doing.
4. Monitor the plan and be open to adjustments (more thoughtful spending), if necessary.

Living in a low-interest rate world

Everyone knows free lunches do not exist. Everything in life comes with a cost. This section is meant to warn retirees and potential retirees of the pitfalls of reaching for income.

People tend to become overly conservative right before retirement. Many investors switch their investments to include "safer" investments, which typically means investing in more bonds. They also look to include more investments that pay income.

In today's low-interest-rate environment, a lot of sleeping alligators can be found in the pond of income. Recognize that not all bonds are the same, nor are they all "safe" investments.

Lots of people focus too intensely on how much income an investment produces versus how the investment fits into their financial situation or risk tolerance. Here is how reaching for income can wake up that alligator and snap up a part of your portfolio.

High-yield bonds

Just as the name suggests, high-yield bonds offer higher coupon payments, which means more income to the investor who owns them. More is better, right? The reason these bonds pay higher yields than other bonds is because the company whose debt you own is weaker than others.

The company who issued the debt has hit hard times, is struggling with expenses or has some other weakness. That weakness is why the yield is high. If it's a new bond, the company must pay a higher rate to attract investors to buy its bonds. If it's an existing bond bought on the secondary market, then other investors believe it could have a higher default risk. Defaults equal no income and loss of principal. Both of these results can be the worst thing that can happen to a retiree's finances.

Remember junk bonds?

High-yield bonds are also known by another term, one that was prevalent in the 1980's when they first became popular: Junk bonds. Junk bonds are strongly correlated to the movements of the stock markets. They are more economically sensitive to market activity than higher-rated corporate bonds.

Typically, the purpose of bonds in a diversified portfolio is to act as a portfolio ballast when stocks fall on hard times. If you have only stocks and high-yield bonds, and the market drops, your bonds likely will drop significantly, too.

The price to pay for that extra income is a more volatile bond. This reality about high-yield bonds does not mean they are bad; you just need to be aware of the pros AND the cons associated with owning them. A portion of a portfolio in high-yield bonds could be a great income generator and diversifier. Holding only high-yield bonds as your bond allocation probably is not such a good idea.

Dividend-paying stocks

Many older investors look to buy large company stocks that carry strong name recognition. These large, well-known companies may be referred to as "Blue Chip Stocks." When a company has matured to a certain point, the ownership structure looks at the profits of the company and asks what the best use of this profit would be. Should it be reinvested in the business for growth, or should it be paid to investors in the form of dividends?

For investors that place a heavy emphasis on income, along with perceived safety, these dividend stocks can develop into a majority of their portfolio. Another term for dividend-paying stocks is "Value Stocks." With interest rates at current all-time lows, some companies are paying higher-dividend yields than the yield on their bonds. Higher income on the stock seems like a no-brainer compared to the lower income bond, right?

Yes, as long as the stock price does not fall, then possessing these divided-paying stocks may make sense. If you are an investor who fears market volatility, then investing in dividend-paying stocks could come with more volatility than you can stomach, especially since the payment of dividends is not guaranteed. Companies may also reduce or eliminate the payment of dividends at any given time.

Ups and downs

The market drops. All the time. It also recovers all the time, too, but no one loses sleep over recoveries.

The risk with the Blue Chip Dividend Stocks is that they are still stocks and carry significant downside when compared to their bonds. Bonds are first in line for repayment in the case of a bankruptcy, while common-share owners are near the back of the line. For this fundamental reason, stocks carry higher risk than bonds. Investors should expect higher LONG-TERM returns, their compensation for that increased volatility.

The Growth versus Value asset classes take turns with which one performs better over certain periods of time. Don't sell out of all of your Growth Stocks to replace them with the dividend paying Value Stocks. Remaining diversified and maintaining positions in both, as part of your portfolio, is sensible.

Income summary

What do you do if your portfolio doesn't yield enough to cover expenses? I'm telling you to not overload high income producing investments. Then where does the income come from to cover your distributions?

It will come from a mix of income AND price appreciation. The growth in share prices in addition to income paid from investments will be the source for your distribution needs. If you try to overload one strategy over another, you are reducing your diversification and opening yourself up to increased risk.

The goal should not be to obtain income OR growth, but rather income AND growth. You will need success in both to sustain a long retirement. Your portfolio will need to keep up with inflation and provide a stream of income/distributions to meet your monthly shortfall.

Investments that pay above market income carry higher risk. Remember, if something sounds too good to be true…

Should I buy a vacation home?

I worked with a client who overpaid on his mortgage each month to pay off his home sooner. In less than 20 years, he was able to pay off his family's home and become mortgage-free. I don't necessarily agree with that strategy because I see better ways to direct that extra savings (read the section about overpaying your mortgage). But, at the end of the day, it's difficult to get yourself into trouble when you own your home free from any mortgage.

I can think of worse things to do with your money than paying off your primary residence. One of those worse things is exactly what this client did next. He bought another home with a brand new mortgage. How better to celebrate freedom from the shackles of mortgage debt than obtaining new mortgage debt?

The client explained how this approach made financial sense to him. I will go through each of his reasons and explain why they really don't work.

"My CPA said I could use the tax deduction from the mortgage interest."

The problem with the mortgage-interest deduction is that you pay a lot more than you get back. The interest gets paid directly to the lender and then the government gives you a refund of a portion of your payments, based on your federal income tax rate (assuming you meet the parameters set by the IRS, which may change at any time).

If you are in the 35% tax bracket and pay monthly mortgage interest of $1,000, then you will get back only $350 on your taxes. Sure you'll have a bigger tax refund, but you'll be paying for it. In simpler terms, the tax deduction works this way: you give me a dollar and I'll give you 35 cents back. How does that add up?

"We can rent the unit for $______ each week."

You may be right, but who is setting up the rental? If you hire a management company, then you will have to pay them 10% to 20% of the rental in fees, minus cleaning fees, taxes and other expenses. You will see far less money in your pocket than the actual rental rate. You also need to be realistic about rental prices and occupancy expectations.

Do your homework on rental income if renting is your main objective. If the property is a true rental investment, you must follow strict IRS rules to preserve more favorable tax treatment. If you use the property with any regularity, you will likely lose the investment property tax benefits. Determine if this property is a rental that you may use once or twice a year, or a vacation house that you may rent from time to time. The difference is substantial.

"The price of the property will appreciate over time."

Unless it doesn't. Rental homes in vacation areas are not just sensitive to real estate price fluctuations, but they are also sensitive to the overall economy. The 2008 financial crisis just happened to be fueled by deflating real estate prices, but in the future it could be something else. When times get tough, people tend to pull back on discretionary spending in their budget.

Second homes fit the description of optional spending perfectly. If many people try to dump their vacation homes at the same time and the economy is down, few buyers will be available to take over ownership of these properties. That scenario would likely make prices drop. Economics 101. While the odds are good that with enough time and a prudent purchase price, your second property will appreciate, it isn't guaranteed.

Bottom line

The main question when looking at the online search tools for the dream vacation home is, are you buying an investment property or a vacation property? Is the motivation cash flow and profits, or family time and memories? The differences between each of these reasons is major. Your honest answers to these questions along with how a second property will fit into your financial plan are important considerations not to be overlooked.

Peeling back all the layers will answer if you are buying a vacation home and justifying it with half-truth financial aspects. If you want to spend the money on a vacation property to create memories and/or spend time with family (or get away from family), that's fine. Just be true to the plan and the budget with adequate homework.

Make sure you can afford it. If you think you can vacation at the place all the time and have strangers pay the mortgage, then that approach may cause some disappointment and financial problems, especially if you are banking on that rental income because your finances will be stretched to purchase the property.

Vacation properties are typically luxury items and an expense, not a financial plus, no matter your financial situation. Rental properties are investments and should be treated as such. Make sure you conduct lots of due diligence, have realistic expectations and plan in advance for an exit strategy if things don't go as expected. If you spend more time thinking about how to furnish the new place than calculating cash flow projections, you should rethink your decision.

Parental estate planning

The death of an older parent can take an emotional toll on the children. Along with the emotional aspects, the death can carry huge financial implications. If planned for properly, the passing of a parent can allow family members to focus on the grieving process rather than the logistics of settling the estate.

People are living longer and longer. This decade frequently is the one where you may see the mortality of your own parents (if you are fortunate enough to still have them around).

Today's older adults, as with previous generations, are very proud and have a tough time letting their children help with things. To allow help is to acknowledge that you are in a place where you need help. Plus, this generation was taught from an early age to keep their financial affairs private.

To members of the *greatest generation,* and those a few years younger, accepting the need for help and sharing this information is difficult to do. What's worse to this generation than talking about their money is being a burden on loved ones. Proper planning with parents can prevent them from becoming a logistical burden. Now is the time to make sure that what they would like to happen after they are gone is what the plan actually dictates.

The term for this type of planning is called "estate planning" and it usually brings thoughts of wealthy people trying to dodge taxes. At its core, estate planning really attempts to execute the wishes of the deceased in transferring their assets as they dictate. Tax avoidance may or may not be a part of that plan. Taxes are also a moving target because rates and codes change all the time, especially when it comes to estates.

Uncomfortable conversations

Why is it so important to have uncomfortable conversations with your parents? Why are so many afraid to approach these topics? People do not want to appear greedy. They are afraid to sound like they just want to cash in on Mom's or Dad's death.

Money is such a taboo, whether you have young children or you have elderly parents; people are afraid to discuss this topic. Part of that taboo might be the fear of opening the closet and seeing some financial skeletons of bad decisions. Well, guess what? Keeping that closet closed will only make matters worse when the parent isn't around anymore.

The purpose of estate planning is to make sure the money goes where they want it, without any surprises. That goal should guide the approach when you bring up the topic to your parents.

Here's an example of when proper planning does not happen: One of my clients did not have a will or up to date records. He was married with children from multiple marriages and relationships. He was in perfect health, so his death was unexpected.

His widow was left mourning the loss of her husband. She was extremely distraught at his passing and working through the grieving process. He took care of the finances and she had no idea where things were. I was brought in to help sort things out.

Days of dialing

We had statements for various accounts and insurance policies dating back ten years, sometimes more. We had to find a phone number for each account and call, one by one, and ask if there was any money or if the insurance policy was still intact.

On every single phone call, we heard this response: "I'm very sorry for your loss Mrs. So-and-So. Unfortunately, I can't provide any information until we receive an original copy of the death certificate and a court document naming the executor."

We would ask if any money was left in the account to see if it was worth going through the hassle of sending in the documents. The employee was not allowed to tell us. We brought in attorneys so we could obtain the requested documents. This process took a couple of weeks. Then we had to send the requested documents to all of these financial institutions just to find out if any assets existed in the accounts. We couldn't do anything with the money, if any money existed, yet.

A couple of months later, half of the work we put in was wasted because some insurance policies had been cashed in, retirement accounts rolled over, and so on. But still, we had to investigate each path, to make sure we knew where the money went, by mailing out the requested documents while waiting weeks at each turn for a response.

Locked up funds

When we did find money, we couldn't just move it into his wife's name. If she wasn't a co-owner or a beneficiary, it had to go through his estate. Those funds in the estate would be locked up for months, potentially years, if any kind of liens or creditors made claims on the estate's proceeds.

The husband's failure to have a will caused all of these problems. When you don't have a will, the courts decide how to direct funds, even if those decisions go against the deceased or surviving spouse's wishes.

During this time, money is still required to pay the mortgage, car payments and tuition bills. Life kept going while we were waiting and waiting to settle the estate. Because of this missing estate planning, the family was reminded of the husband's passing constantly even as they struggled to move on with life. They had little access to money, and legal bills reached tens of thousands of dollars.

I have seen this kind of story occur over and over again. Making matters worse, in some cases, is how the older generations looks at "diversification."

Your parents may have believed that diversification meant going to every bank in town and depositing money in a savings account. It may have meant using multiple investment institutions and advisors. That kind of "diversification" can turn into a collection of accounts and insurance policies eighty plus years in the making.

Extra work at the worst time

Each account in this "diversification" will result in hours of work for your surviving family if no planning is done. Hours of phone calls and paperwork and lawyers and court system oversight—of course, it's the kind of work people love when they are busy with their own families and work, not to mention the added expense.

Good news: All of these headaches are avoidable. Working with an advisor and hiring an estate lawyer while your parents are still around will reduce the workload by about 80% to 90% when compared to post-mortem estate planning. Just asking your parents about where everything is will cut down significantly on post mortem estate headaches.

Work with your parent or parents, and an advisor to create a plan that passes your assets as your parents want them passed. Bring in a trusted and experienced estate planning attorney to help with the process. Here's what needs to happen:

1. Create a list of all accounts and the firms where they are held.
2. Consolidate where you can. Keep things simple.
3. Draft documents that outlines where things go and how things will transfer upon death.
4. Find one or two trusted and responsible people to

execute wishes. They may or may not be family members. Use discretion.

5. Review what is in place every few years.

Even if you just don't feel comfortable asking your parents about their financial affairs, offer to pay for counsel to help them. The money you spend on getting them organized might be one of the best investments you can make.

It will save your family hours of hassle and thousands of dollars in lawyer's fees in the future. Remind your parents that this whole process is meant to give them peace of mind, and help the surviving spouse, for when that day comes.

Decisions

This decade is the most intimidating for most people. As mentioned earlier, the accounts are at their peak in size, the retirement timeline is soon or has already passed and you aren't getting any younger. Understanding how to transition the shift from a saver to a spender is very difficult.

Up until now people are focused on earning more and saving. Retirement has always been on the horizon, but now it is knocking on your front door. Either by choice or by circumstance, most people will enter retirement or a semiretirement in this decade.

Turning your portfolio into a steady income stream is complicated and new to most people. Social Security Income won't likely be enough, and pensions are becoming rarer. The shortfall must be met with what you have been able to save. Navigating healthcare costs, Social Security decisions, income distribution strategies, taxes and everything else involved in a successful retirement is complicated.

It is important to maintain flexibility to have the best chance of retirement success. Flexibility is important with both a diversified portfolio and a diversified tax bucket strategy. Maintain flexibility with expenses and be open to the potential of earning part time income. Flexibility is what helps successful individuals and couples adapt to the ever changing retirement landscape.

Active vs. Passive Management

The world of investing and financial services is playing a tug-of-war game for your money. On one side is the mutual fund industry and on the other is the indexing industry. People in the industry debate the merits of using an Active investing strategy (mutual funds that try to beat the index) versus a Passive investing strategy (low-cost index fund).

The knock against Active (mutual fund) investment management is that it comes with higher cost. The cost is higher because people are picking the investments and people are more expensive. Active managers try to either achieve higher returns than the index or the same returns with less volatility. The average expense for Active funds was 0.79% in 2014. Compare that to the average expense for passive funds at 0.2%, according to Morningstar's analysis of 2014 funds.

Every year, a greater market share of the investment dollars is flowing to Passive index strategies. The Active funds once firm grip on how your money is being managed is loosening. The reason for this shift is tied almost directly to cost. Generally, people don't mind paying a little extra if that means they get more. Unfortunately, the Active fund universe has become bloated with lots of funds. These include some mutual fund managers who charge more than an index yet underperform. Please note that I said "some" and not "all."

Battle lines drawn

"Price is what you pay. Value is what you get," said investor Warren Buffett.

Consumers and investors demand value for their hard earned money, especially if they are paying a premium.

On one hand, you have commercials that outline all the extra fees you pay by using Active strategies and how much money that costs investors. On the other hand, you have commercials that outline investing in Passive as merely investing in Average. No one wants to pay fees and no one wants to be just average. So what does that mean for you and your financial goals? Which option will help you the most?

Obtaining value for your money

The goal is to get the most value for the expenses you pay. If you are going to pay more for an Active investment strategy, then your expectation of value should be greater. It can make great sense to invest in a mutual fund that is lower in cost and has a proven track record of great performance or lower volatility. Passive index funds will not beat the index nor will they offer lower volatility than the index. They also won't grossly underperform the index or offer higher volatility than the index.

Creating a portfolio doesn't have to be an all or nothing proposition. A place for Active management and a place for Passive management exists. They also can complement each other very well. People have been retiring for decades using an Active-only investment portfolio approach. People have also been retiring for a few less decades using a Passive-only investment portfolio approach. To manage a portfolio of any composition effectively, you must develop a process for evaluating your portfolio on a continual and regular basis.

Is your Active manager earning their keep? Would a Passive index help reduce the concentration risk of your portfolio? Does an Active manager have the ability to select individual stocks that a large index can't buy effectively? Does your Passive index help reduce capital gains exposure in a taxable account each year?

Taxes play a role

Another consideration between the Active and Passive strategies is taxes. Active managers are typically less tax-efficient and might be better utilized in a tax-deferred account. Passive management does not allow any flexibility in what it holds; it must stick to the index or investment mandate. That requirement may mean holding Lehman Brothers stock as it falls and falls and falls. This low turnover translates to a usually more tax efficient investment structure. There are also tax efficient Active managers, but that requires a little more homework when crafting your portfolio.

A need will always exist for humans when it comes to money management and the cost associated with it. Indexes and computer models will help offer extremely low-cost diversification that will complement the Active strategies to help further the diversification profile of a portfolio. In the end, the tug-of-war game should have one true winner: the investor. The pressure that Passive indexes is applying to Active managers is helping to weed out the underperforming and overpriced funds. Fund expenses are also dropping in response to the competition from Passive indexes.

At the end of the day, you can effectively use an all Active portfolio, an all Passive portfolio or a mix of the two. The investment companies want investors to believe the issue is much larger than it really is to win your investment money. I have seen retirements fail because of poor planning, not because someone paid 0.2% more for an investment.

Your 70s and 80s+

Goals for this decade:

- Dispel the myth that expenses go down in retirement.
- Follow the Required Minimum Distribution guidelines.
- Appreciate all that glitters is not gold.
- Learn investing in cash comes with a cost.
- Downsize/relocate your home before you are forced to.
- Learn how to invest if the market is hitting all-new highs.
- Adopt the retiree mindset later in life.
- Create or update your estate plan.

Expenses don't decrease

Many people plan their retirement thinking that expenses will drop. They also think that as people go through retirement, their expenses will continue to decrease because they start to slow down. For most people, this belief is untrue.

Expenses in retirement usually stay the same. In many cases, they actually increase. A primary example of an expense that goes up as the retiree slows down: medical costs.

As people age in retirement, they might not travel as much or spend as much on entertainment costs. But they do start to spend more on healthcare. Who knows what healthcare costs will look like throughout retirement, but if the past is any indication, they will likely grow at a rate faster than inflation.

Unpredictable medical costs

The other problem with increasing medical costs is that they are usually unpredictable. This fact is especially true for people who have been healthy. If you are lucky enough not to have any or many medical issues to deal with, then you are likely unprepared for them if/when they do pop up.

The same is true with how auto repairs are low in the beginning of owning a new car; as the car gets older you get closer to needing maintenance. Older cars need more maintenance and upkeep. Sure they'll still get you from A to B, and look good doing it.

Unexpected expenses

But eventually, the suspension might need to be replaced. Or perhaps, some sun spots need to be addressed in the paint. In some cases, the computer unit gets fried. We might see the warning signs for these types of repairs, but often they come unexpectedly. What I can guarantee is that they typically come at exactly the wrong time.

Mix in the rising cost of healthcare, the increasing need for healthcare and top it off with unexpected medical events—this recipe is one of the largest challenges to planning for retirement. It leaves two options when planning:

1. Don't get sick.
2. Plan for increasing healthcare costs.

While I wish everyone could pick Option #1, not getting sick isn't realistic.

To maintain control over your destiny and continue retirement with dignity, you must plan for the unexpected.

Required Minimum Distributions (RMDs)

The Internal Revenue Service can make things very complicated for the average person.

One of the prime examples about how confusing all this stuff really can be are Required Minimum Distributions (RMDs). As I am writing this chapter, in the year that you turn 70½, you are required to withdraw money from your pre-tax retirement accounts. Unless you are still employed and actively participating in a 401(k) retirement plan that money doesn't count, yet. If that plan is a SIMPLE IRA plan, then it does count in your calculation of the RMD.

In the year you turn 70½ years old, you must add up all of your qualified pre-tax savings (IRAs, Rollover IRAs, SEPs, SIMPLEs, etc.) You must take that total amount and divide it by the IRS's Uniform Lifetime Table, which represents the total amount of money you have to distribute and pay taxes on whether you need that money or not. In layman's terms, the result is that a little over 3.6% of the total IRA money must come out the first year.

This first year is unique; you may defer taking your first RMD until the following year. Keep in mind, however, that if you put off your first RMD, you will be taking two the next year. Every year after will be the regular one year calculated amount.

The amount of distribution you take is usually fully taxable, and taxable at ordinary income rates. The IRS came up with this convoluted system to collect their pound of flesh on this money that has never been taxed and growing all these years.

Forced distributions

If you take the time to look up the Uniform Lifetime Table, you will notice the IRS forces you to take increasing amounts from your account(s) as a percentage each year. Your RMD when you turn 80 years old will be equal to slightly more than 5.3% of total qualified accounts. When you turn 90 years old, it will exceed 8.7%. In the year you turn 100, the minimum distribution will be almost 16% of the total qualified accounts.

Don't worry, when you turn 115 or older, the percentage of distribution stops growing. You will, however, be required to take 50% of the qualified money out as a distribution at age 115, and every year after.

What if you decide you don't want to take the money out and ignore the rules? Or what if you forget to take the minimum, or maybe miscalculate and take too little one year? The penalty is one of the stiffest penalties out there: 50% of the missed distribution.

To add insult to injury, you are still responsible for the taxes on the distribution, as well as the penalty. If you think you may have missed or miscalculated a required distribution, hope exists. You can ask for leniency. I have rarely seen the 50% penalty enforced, but you don't want to be the one example.

Inherited retirement accounts

RMDs require other considerations. If you have inherited retirement accounts from anyone other than your spouse, you have to take RMDs that will be calculated differently, even if you are not 70½ years old. If you inherit retirement accounts from your spouse, you can actually just fold them into your own retirement accounts.

Non-spouse inherited IRAs must be monitored carefully. In many cases distributions must begin immediately, even if you have not reached 70½ years old. Missing a required distribution, or multiple required distributions, on inherited RMDs are subject to the same severe penalties.

Upon distribution, it does not matter which accounts you take the money from. If you have five IRAs, as long as you are pulling out enough, you can pull out the entire RMD from one IRA, or equally from all five. It does not matter how you distribute the money, only that you distribute enough of the money.

The timing in the year of distributions does not matter either. You can pull the money in one lump sum in the beginning of the year or toward the end of the year to help pay for the holidays, if you wish. You can pick monthly distributions, quarterly or whatever. The only thing that matters is that you take enough money out.

When do you take your RMD?

From an investment standpoint, is there a better time of the year to take your RMD? No.

No one can predict which time of the year will be better for distributions. Over the course of a year, the market can move pretty significantly and you have just as good a chance calling it correctly as you do picking the worst time. The nice thing about getting the timing wrong one year is that you have every year for the rest of your life to try to get it right.

Keep in mind that just because you must take a distribution from a qualified retirement account does not mean you must spend the money. You don't need to leave this distribution in cash either. The only requirement the IRS demands is that you pay taxes on the money. The remaining after-tax amount can be invested in an after tax investment account. You can even repurchase the same investments, minus the taxes that are to be paid. By reinvesting the money, it takes some pressure off of the timing of the RMD as well, assuming you don't need the funds.

TAKING RMD MONEY

Usually, taking the RMD when you need the money is wise. Do not fret over things out of your control like if the market is up 10% or down 10%. Just make sure you aren't making an emotionally charged decision like taking an RMD after a market pullback because the market makes you nervous. If the market is down and you can afford to wait until later in the year, that might make sense.

If you have funds in a Roth IRA (because you followed my Tax Bucket diversification strategy), they are not part of the RMD calculation. In fact, Roth IRAs are not subject to RMDs (assuming they are not Inherited Roth IRAs).

Once you hit RMD age, a Roth is a great way to control when and how you take distributions of your money. Since there are no RMDs for a Roth, they can continue to grow without the hurdle of distributions.

FORCED WITHDRAWALS

The same is true of after-tax money. Say for example you are now in the age where RMDs begin. You also have enough income from Social Security and a pension that you don't need the distributions. The IRS forces you take your pre-tax IRA money out even if you don't need it.

The Roth IRA and after-tax brokerage account can be left alone and (hopefully) continue to grow and leave you in more control over when and how you pull from those two buckets.

When you turn 70½ years old, and you have qualified IRA money, you lose some control over your distributions. Whether or not you need the money, you must withdraw it and pay taxes on that money. This reality is why I like to tell people to diversify their tax buckets, as well as apply regular investment diversification earlier in life.

Many people may already be taking money from IRAs that exceed the minimum required amounts. Perhaps you retired in your 60s and are drawing IRA distributions to replace your lost paycheck. Make sure you comply with the graduated distribution requirements and make sure you are drawing enough money out as you get older and the distribution requirements increase.

Disclaimer: Many aspects of the RMD cannot be covered in one chapter or one section of a book. Personal circumstances may alter the validity of the broad information I am reviewing here and negate the relevance to your situation. Consult a financial advisor.

Shedding light

The purpose of this text is to shed some light on the topic, but it is prudent to consult a professional to address your specific situation. This guidance is also based on the rules the IRS put forth as of the writing of this book. As we all know, the government's rules are always subject to change.

Required Minimum Distributions prove one of the truest realities. Only two things are guaranteed in life: death and taxes. RMDs confirm that you will be taxed until death. How nice. Unless you run out of money before death, then the IRS has nothing to take and you're living in someone's basement eating cat food. Either option isn't particularly pleasant to consider.

You alone are responsible for making sure your RMD withdrawals are done on time. Consult with the appropriate advisor and tax consultant to make sure they are done the right way. Stay diligent with your investments and taxes.

Gold always has value

For some reason my clients at this phase in their lives call me and ask the following question, "Should I be investing in gold?"

This statement will come from one of two sources. Either a friend said something to them or they keep seeing commercials on TV. Friends and advertisements will always influence investors, but something different is at play on this topic at this point in retirement.

Once you get into the thick of retirement, you might start to worry about market crashes like never before. With every passing decade, people get more and more cautious about investing and protecting their nest egg. It makes sense; the older you get, the shorter your time frame and the (hopefully) more money you have.

I also see people, as they get older, and peaking in their 70s, get super ultra-critical of the world we live in. Maybe it's because they are older and wiser than ever before. Maybe it's because the world really is different now. Maybe it's because without the distractions of building careers and families, people see what's going on around them more clearly.

One asset retains its value

It isn't a political thing, although sometimes that plays a part in peoples' view on where things are headed. The funny thing is when it is political, whether people lean left or right, neither group likes where things are going. It's just for different reasons. They do seem to agree on one thing: the world is changing for the worse.

Sometimes the concern is that the new generation is lazier than before, too dependent on technology, and too selfish. The funny thing is I would bet money that the parents of today's 70 year olds said the exact same thing years ago. "Children these days don't know how easy they have it. In my day I had to read the weekly newspaper to find out what was happening. Now they get everything broadcast right into their living rooms on these newfangled television sets!"

In any event, whatever the concern for the future, one asset has maintained value throughout the ages: Gold. Yes, gold has always been worth something. Unfortunately, to say it has been worth "something" or that it simply "has value" doesn't really tell us if it has been a good long term investment.

What's gold's value?

TV commercials will tout gold's success (potential) as an investment and how it faired through the market crash of 2008. "You can see it and touch it," the advertisements say. If you call in the next 30 minutes, they will even give you a "free" safe to store your gold. You can become a modern day Captain Blackbeard. Or, perhaps you can bury your gold in your backyard for safekeeping.

All kidding aside, after each market crash, something usually stands out as a "safe" investment. Typically, real estate tends to be the answer, but the 2008 crash was a result of crashing real estate. Gold was the "safe" asset that people flocked to that recession. It jumped in value as everything else seemed to be falling.

No guarantees

"Generals are always fighting the last war" is a saying also applicable to investments. It is so easy to sell a product or idea that worked in the recent past. Why talk about what might have a chance to grow in the future when someone can easily sell what worked in the past? "Past results do not guarantee future performance." That saying is at the bottom of every investment commercial or product pitch for a reason. Gold is no different.

Is there a place in your portfolio for gold investments? Sure. Should half of your portfolio be invested in gold because the sky is falling and the country is going to hell in a hand basket? Nope.

Falling prey to buying assets out of fear will potentially leave you with a backyard full of fool's gold. Note: Precious metal investing involves greater fluctuation and potential for losses.

The cost of cash story

Here is another example of going too conservative later in life.

I worked with a couple who retired at age 70. They were both receiving pensions, that, when combined with Social Security, covered their monthly expenses. They also managed to save up a little over a $1 million portfolio between their retirement accounts.

When we first met, they told me they were extremely conservative investors and wanted to preserve their capital more than focus on growth. Ok, no problem. We put an investment portfolio together that met their requirements and allowed for some modest growth along with the income the portfolio produced.

Unhappy with returns

After a year, the portfolio performed positively in the mid-single digits. Were they happy? After all, their conservative portfolio achieved profitable results while taking a small portion of the stock market's risk. They were of course, not happy with our results.

The problem was the portfolio, while conservative, did fluctuate small amounts statement to statement. They simply couldn't handle seeing even one monthly statement that showed a negative return compared to the previous statement, even if their total account was up from the starting point.

So, they took all of their money and bought CDs. I see this approach from time to time in people close to retirement. They think they have more than enough money to retire comfortably. They decide to pull their money and sit on the sidelines.

A safety net with costs

The couple's portfolio of $1 million after five years grew by approximately $50,000 while invested in CDs. They did get a little bit of money and they didn't have to see any statements showing losses.

This perceived safety net does have a price: opportunity cost. If they had kept their portfolio invested in the conservative portfolio and stuck to the plan we crafted, their funds would have increased by more than $250,000 over that same time period. They missed out on $200,000 in earnings just so they would not see a few monthly statements with temporary losses.

Surprises can cost dearly

While investors think they are being "safe," people who employ this approach all but guarantee their money will lose value relative to purchasing power. Why does this matter when their fixed income meets their expenses? Because there is a 100% guarantee that life will challenge us with surprises in the future. Usually, surprises in retirement are costly.

Add 10 or 15 years and a prolonged medical event, and that $1 million (in today's money) will not go as far as you think it will. Years ago, retirement homes cost just a couple thousand dollars a month.

Today the cost of a full-time, medical care facility can be $7,500 per month or more. What will that facility cost be in 10 or 15 years? Is your portfolio positioned to keep up with that increase?

Sometimes going the safe route may cost you more than you think.

Downsizing your house

You have two ways to downsize your home in retirement. You can move on your terms or you can move when you are forced to. Some of my clients tend to procrastinate when it comes time to downsizing or relocating.

They usually use one of two reasons to delay moving until it becomes a forced event that is bad for them or their family.

1. No one likes moving, especially at age 70 or older.
2. Thinking about a final move is a somber event.

Take the fact that people are resistant to change, throw in an emotional hurdle to moving, and that's how people avoid making a decision. I empathize with the "nobody likes moving" part. Moving is a hassle, and takes a lot of time and energy. Retired people usually have plenty of time, but their energy may be different than when they moved in their 30s or 40s.

As for the final move realization, perhaps it's better to think of things a different way. If you are still living in the large home where you raised your family, that emotional tie is strong. Instead of thinking about the fact you are getting older, perhaps think about the new possibilities ahead of you.

Ch-ch-ch-changes

You can take this time to do something new and different. Of course, this change isn't as easy to absorb coming from someone who isn't near this phase of life. However, this point of view is not coming from me. The many seniors with whom I have worked have told me the same thing. This includes both the ones who embraced the change, and more importantly, the ones who fought it kicking and screaming.

You can now determine how much time and effort you put into your home. A large home with a big yard to raise children is great when you're younger, but maybe the mowing and weeding are getting tiresome. Perhaps you have a pool that you pay a ton to clean and service, but never actually swim in. Start to focus on the parts of your current home you don't like and wish to change. Use that as a guide for what kind of home you start looking for. Maybe you're tired of steps and want a rancher or condo. Maybe the never ending yard work keeps you from taking long trips or nags at you while you are away.

The retirement lifestyle

What are you going to do with four bedrooms if you're an empty nester? Maybe you want to be able to walk to restaurants and local attractions. I often see younger people move to the city, then raise families in the suburbs and move back to a city lifestyle later in life.

Another option on moving often carries a stigma: retirement community. I wish I could move into a retirement home. Think about it. Meals are planned, your friends are down the hall and endless activities can keep you busy. It's kind of like being a kid again. All the fun and meals with no worries of maintenance or upkeep.

The individual must decide whether moving to a new home or retirement home will be a positive experience. It can be resisted kicking and screaming, or embraced as a positive next chapter in life.

A tough decision for all

Moving because you want to and not because you have to is a much more pleasant experience. When you are forced to move, bad circumstances are usually the cause. Perhaps the house was too much to maintain and now costs too much to repair and be attractive to buyers. Perhaps later in life a medical event prevents you from going up and down stairs to your bedroom.

If your family has to make a tough decision for you, that isn't really fair to them if it can be prevented. We should always make the tough decisions for ourselves while we can so as not to burden our families emotionally, or otherwise. But again, it doesn't have to be a tough decision.

I have seen it done both ways and believe me, moving before you are forced to is so much better. Make a list of things you want in a new home and look for it. Being proactive keeps you in the driver's seat. Keep yourself in the position to make choices rather than forcing others to help make the tough calls for you.

Market highs (or lows)

Investing in a down market can be extremely difficult. The market is dropping, the headlines are bad and you're retired. We have covered the importance of diversification and maintaining a long-term approach toward investing in previous sections of this book.

As of the writing of this book in Summer 2017, a down market is not spooking retirees and soon-to-be-retirees. The up market has everyone nervous.

Some might say, "How can people be afraid of an up market?" It's because everyone thinks "what goes up must come down." Unless it doesn't. The market is a little different. Reaching an all-time high in the market is something to be celebrated, not feared.

The growth of the stock market going back to its start has been a series of all-time highs. If you look at a chart showing the historical growth of the market, it looks like the overall advance of the stock market has been a smooth ride, but it has not been. There have been dips, but stretched over long periods of time, the market has grown to always reach new all-time highs.

The "what goes up must come down" theory applies to a lot of things in life. Why would the stock market be any different? The overly simplified reason is because the stock market is fundamentally tied to the profits of publicly traded companies.

Long-term successes

As long as companies can increase their profits over the long term, the stock market should grow over the long term. Some companies will come and go, but that's why diversification helps reduce the risk of picking a bad company or sector. It isn't always pretty and doesn't always go up. But the last 200+ years of growth should count for something.

In early 2017, the Dow Jones Industrial Average (Dow Index) closed above 20,000 for the first time. The milestone was huge for the index of 30 large publicly owned stocks in the U.S. As soon as the Dow Index eclipsed the 20,000 threshold, many investors immediately thought about selling out and waiting for the drop.

Let's first look backward to see how things worked out when the Dow hit another unthinkable milestone: 2,000. While we have gotten used to 100-point swings in the Dow, years ago a big move was measured in tens of points, not hundreds.

When the Dow first hit the all-time high of 2,000, the year was 1987. If you weren't scared off by that all-time high, or any after it, your $2,000 investment would have grown by ten times its original size. In January 2017, you would have had $20,000 from that initial investment of $2,000 exactly 30 years ago, not including any reinvestment of dividends paid.

You would have to stay invested through each market milestone and the following events:

- Black Monday
- The Savings and Loan Crisis
- The Gulf War
- The Global Recession(s)
- Y2K – (remember that one!?)
- The Tech Bubble and its bursting
- Sept. 11, 2001
- The Enron Collapse
- The Second Gulf War
- Hurricane Katrina
- The Housing Bubble and its bursting
- The Credit Crisis/Financial Melt-Down

You get the idea. Every year, or more accurately, multiple times each year, reasons to not invest seem to arise. Market highs are one of those reasons.

Yet, if you just kept your money invested in 1987, you would have 10 times more money in just 30 years. Even through hundreds of negative market events. I don't have a crystal ball. But one can imagine that in the year 2047, the Dow index could be close to 200,000 or more.

Whenever you are reading this book or chapter, the market might have just reached an all-time high. Or, maybe we're right in the middle of a recession. Either way, focusing on the long term and being patient is what's important. Maybe you don't plan on living another 30 or more years. That's okay as long as the plan is that your money will outlive you.

Slowing down by choice

One couple I met with started implementing their retirement plan when they were in their late 60s. They had more than enough money and lived a comfortable lifestyle. We talked about what retirement would look like and it involved a lot of travel and home projects that they never had time to complete.

I told them a quick story about my early adulthood and how it relates to what they can expect for their retirement as they get older and reach their 80s. Before children, my wife Jane and I would go out a lot and try new restaurants. We had lots of time and enjoyed trying new foods and exploring different areas of our home state. We went on weekend trips to different cities and explored this great country of ours. It was a great time in our lives.

New circumstances

Enter a couple of kids. We were fortunate enough to be blessed with two little boys and our world was forever changed (for the better). No longer were we driving to the city to try out a new restaurant that serves mac & cheese & chocolate (which actually is fantastic).

We were making purees at home and in bed by 9 o'clock. Instead of drinking wine on vacation, we were now subjected to constant whining. Spontaneous excursions were replaced with spontaneous expulsions. Eww. But we loved every moment of this new chapter in our lives.

Do we miss how things were before children? Sometimes. Would we change anything about how our lives are with children? Absolutely not.

Before and after

So what does life before and after children have to do with a couple in retirement in their 80s? When folks are in their 70s, they fully embrace retirement. It's a chance to do all the things they have wanted to do but haven't had time. That time might be allocated to fixing up the house, traveling around the world or learning a new hobby.

When people are knocking on the door of their 80s, and in their 80s, things start to change. Not in a bad way, just naturally. After a decade of traveling, they might not want to go through airports as much as they did the last decade. They might not want to fuss with the house or go through one more renovation project.

They may not feel up to those activities anymore. They want to do things that are more sedate or closer to home. Usually things shift back to closer to home. Proximity to, and time with, family tends to take over. Attending grandchildren's events or visiting brothers and sisters become vitally important. Going to any and all family cookouts and events fill the calendar.

A positive take on aging

Aging in retirement does not mean you stop doing things you want to do; it means the things you want to do change. Don't view the aging process or aging in retirement with a negative view. The clients I work with tend to continue to do things on their terms. One of my 90-year-old clients hit a hole-in-one, and it wasn't her first. (This fact makes me depressed every time I miss the green on a par 3, which is every time.)

My wife and I enjoyed our time before children and are enjoying our time with children even more now. The same is true of the evolving retirement as people get older.

Getting older isn't something to be afraid of. It comes with new experiences and settling in to how you want things to be. Having memories of those different times is part of what makes the future times that much more valuable. These new phases of life, with new changes and opportunities, are colored by our prior great experiences.

Serious estate planning

One of the most, if not the most, important financial-planning item to address in your 80s is estate planning. Estate planning is not just for multimillionaires looking to dodge taxes. It is for everyone at any wealth level to determine to whom and how their assets will be dispersed when they die.

Yes, it is unpleasant to talk about or think about what happens after you are gone. But that's life, and this task is as much for your peace of mind as your family's wellbeing.

If you are married, do it for your spouse. It doesn't matter who the primary earner of the house was. If you are married and reading this book, it's likely that you are the one who handles the money for the family. In that case, it makes a lot of sense to bring in a trusted advisor or family member, and show them how you handle your finances. If you did not wake up tomorrow would your partner be completely lost? Do they know the plan you have put together or how the money is managed? The benefit of having someone come in to help when that day comes is immeasurable to a surviving spouse.

Following protocols

If you have children or grandchildren, it's important that your affairs be figured out for them as well. If you are in your second or third or whatever marriage, make it clear where you want assets to go, especially if there are children from previous marriages for either spouse.

I have seen far too many families dragged through the process of settling an elder's estate. It can go on for months or years, even if there is little to no money to transfer.

The reason settling an estate drags on so long when the proper planning hasn't taken place is companies must follow certain protocols. Strict rules provide secrecy when it comes to money and investments. Insurance companies and investment companies cannot discuss your information with anyone without proper authorization or having you on the phone.

In death, we can't talk

If you are dead, you can't tell the investment representative you authorize them to talk to your heirs. Unless we're dealing with some type of zombie scenario, but even then you probably wouldn't be deemed mentally fit enough to provide authorization.

So if you are dead or incapacitated, your heirs can only go with what you have planned before this event. If you have done no planning, their lives just got exponentially more complicated. They now have to deal with, and pay, lawyers and courts in order to find out what assets you have and to whom the assets should go.

If you have kept things consolidated and simple, which most people have not, it will still be a lengthy process filled with road blocks. If you are like most people and don't think about your finances on a regular basis, you probably have a collection of bank accounts, insurance policies and investment accounts.

Hours of homework

Under that scenario you just gave your heirs at least 100 hours of homework, probably more. They will then have to bring in attorneys and pay them thousands of dollars, probably more. No one likes homework or large legal bills.

If the family has multiple marriages or children from previous relationships, things just got even more complicated. Squabbling and fighting and hurt feelings are almost guaranteed. Why would you want to create this type of scenario for whoever is left when you are gone? You don't want to create this scenario (hopefully).

Gifting

An often overlooked option when estate planning is what to do with your money before passing away. While estate tax laws vary year by year and state by state, it is generally accepted that the smaller your estate the less the (potential) tax burden.

Giving money away now rather than after you die provides the ability to see the beneficiaries' enjoyment. Perhaps the money can be used now to help a child who is in between jobs. Or given to a charity to help with whatever cause is close to you. However you choose to use the money, you could experience tremendous satisfaction in giving it away. The potential benefit is that a reduced estate size could lower taxes and headaches down the road.

Prepaying funeral costs

Another estate planning tool could be to prepay funeral costs. The financial benefit would be locking in today's prices and reducing your estate size. The emotional benefit is making the lives of your loved ones easier. Your services will be where you want and how you want them to be. It takes the pressure off of your family to try to carry out what they think you might want.

When crafting a giving plan, whether it's giving to family, friends, charity or some combination of those three, be thoughtful with your gifting amounts. It is important to give what you can afford without compromising your financial security. Seek help to find that right balance.

Take the short time now to bring in a qualified estate planner and get your affairs in order. That way when that inevitable time comes (and it will), your family can focus on what's important: you and your memory and not your money and the hassle it just created.

Decisions

The later years of retirement face different challenges than were faced earlier in life. One major challenge is the fear of running out of money. The irony of the situation is that if fear based changes are made to a well thought out plan, they typically increase the likelihood of depleting assets. It is important to continue a long-term approach, not get too conservative and be aware of the emotions of this stage of life.

The other major challenge at this phase of retirement surrounds our own mortality. People later in life are very resistant to change, even if it improves their quality of life. I have not been an 80-year-old retiree, yet, but from the many that I work with it can be a major struggle in this aspect.

Lastly, the best gift your heirs hope to receive is usually not a large sum of money like most people think. They hope they will receive direction from you where things go and a well laid path to pursue your goals. If there is a lot of money, or a small amount, they just want to carry out your wishes without too much burden on their time.

Closing Thoughts

Congratulations! If you reached this point in the book, you are serious about your money and the role it plays in your life. You may now better understand that money at its root is just a tool, one that with planning and discipline allows you to pursue whatever goals you want.

When handled properly, money affords us stability. It enables us to weather the various ups and downs in our lives, and it can provide us with the means for shelter, health and safety. Not private jets, plastic surgery and a mansion.

No instruction manual

Unlike every tool you may have purchased, money does not come with instructions. Nor do educational institutions teach its use effectively. This general lack of financial education and understanding leads to a confusing and complicated relationship most people have with their finances.

While money will not buy happiness, it can buy freedom. It can help buy freedom from the stress of how to pay for new tires. Or freedom from the stress of having to stay at a job because you are dependent on the paycheck. When you finally do have money, you begin to stress over making the right decisions with it and not losing it.

With money or without, you must make some important decisions regarding money. I wrote this book to help you better understand personal finance and to work toward your goals.

Financial planning is complicated and constantly changing.

Going it alone is tough

If you are managing your own retirement planning, then I genuinely hope I have provided you more tools to effectively manage your money. But if you would rather spend time with your family and friends than on financial planning, you might want to find the right financial advisor to help you with your goals.

If you are just starting out, or if you are restarting your financial situation from scratch, you can improve. I have yet to meet anyone who is a lost cause. Everyone has the ability to improve their situation and get things back on track. The only key to unlocking that path to financial success is understanding how to get there and making the necessary improvements. If the path is still a little unclear, help is not far away.

I have seen clients and people referred to me in all sorts of situations – great retirement plans and non-existent ones, people with huge 401(k)'s and those who are just starting to put money away. Things happen—an unexpected death, a divorce, a business failure or years of poor decision-making.

Clarity and strategy

No matter what the situation is in one's financial life, my goal is always the same: I work to help improve and protect their finances. I serve various roles, but at all times I am concentrated on helping my clients focus on their plans while dealing with the inevitable ups and downs in their lives. I take pride in being whatever they need – from a guide and teacher to a sounding board and voice of calm. I take great pride and joy in my clients' successes.

Some of my clients in most need of help are those who are at the peak of their financial accumulation. Believe it or not, this stage is no easier than the other stages. These investors have more to lose. Emotions and the impact they have on decision-making regarding their money can work against them. I have seen many portfolios blow up because of bad decisions driven by raw emotion and good intent. These clients can benefit greatly from having an expert third-party monitor their plan. For the average investor with an above average portfolio, mistakes are far too easy to make and far too costly to endure.

Whatever decade and financial situation this book finds you, I hope you have uncovered value in these pages. Thank you for taking the time to explore my approach to personal financial planning. I wish you a prosperous future in the many decades ahead of you.