# USC MPH MaPHSA presentation

[Start of recorded material]

Speaker 1: Now what I wanted to start out with you guys on is this packet. So does everyone has this, guy in front of them here.

Yeah. This is sort of the building block. If we're going to take a 10,000 foot view of financial planning and finances in general it's this pyramid. Everything in life is a pyramid scheme including finances.

Yeah. Basically taking a look at the financial building process worksheet. Everything starts out at the base with protection. If you look at that bottom section there. Protection really just falls into two categories. It's all the material items that you own. So your car, your house, your belongings, etc. If you own a business or start a business ensuring all the machinery parts and people and things that associate with that.

Besides the material things then there's protecting yourself. Protecting yourself comes in the form of insurances, health, life, disability, long term care. You know, ultimately that's the base that everybody starts with because you can put together the best financial plans in the world, the best plans for college, the best plans for doing this that and the other but life can have other plans for you. If you don't have an insurance in place that covers one of those needs, you can wipe out decades worth of planning. That's where everything starts from. You start from a basis of protection.

This also, I would pull, it says plan for is the next stage. I would pull emergencies into that category because emergency funds. Has anyone heard of emergency funds before? Yeah, having an emergency fun. The idea, I'll put sort of little key points over here, the idea of having an emergency fund is basically, that's kind of a fun board here, is this a wall. I think it's a wall. Having an emergency fund. Ideally 5 to 6 months' worth of your expenses set aside into that bucket. I'll put a little ... We're building our buckets over here. Nice little bucket. S, safety. IE, emergency funds.

Yeah, this is the necessary liquid cash buffer so that, as people have mentioned before, having debt, having debt issues is a common problem throughout most of the United States. The average person has $15,000 of credit card debt in this country. Having emergency funds not only protects you and your finances and your long term finances from automotive, medical, you name it. Life is going to happen. For those of you guys that haven't transitioned yet into the real world, per se, you'll tend to notice that things happen to come along that cause problem.

Emergency funds having a 5 to 6 months' worth of expenses set aside so that if anything comes up you can pull on that money instead of pulling from anywhere else. Anywhere else has penalties and problems. Specifically if you're pulling from long terms accounts. If you have retirement accounts, if you're working a position, you have a 401(k), you have pension, you have real estate, you name it. Anything that is a good long term investment is terrible in the short term. There's always going to be penalties and issues associated with trying to touch that money. Vice versa too. Any long term investment you don't want to be using short term vehicles to try to get somewhere long-term. We'll kind of come back to that a little bit later on. Ideally having that buffer, also, again, to keep you from dipping into credit cards when emergencies happen.

This is also a key point as it relates to debt pay down, which is one of the questions that you guys brought up. Debt pay down is important but don't make it 100% of your focus. Because what happens for people that focus so heavily on debt, and I get it, because you have the credit card bill, or the loan payment bill that's showing up every month and in your mind you'll be like, "That would be really great if I just didn't have to pay that anymore. It would free up all this money for XYZ." When you pour everything that you've got all into debt, and you are not taking care of long term, and you're not setting aside for short term for emergency funds, you're just setting yourself up for the debt cycle that a large majority of the Americans find themselves in where you're paying down credit cards, paying down credit cards, paying down credit cards, and it's so easy, again, $15,000 average is a significant amount of debt.

That would take ... If somebody's throwing $1,000 a month, dealing with interest, it's going to take them a year and a half plus to finally pay that off, and the problem is something is going to happen between now and then that just as you're getting close to paying it off and then all of a sudden car repair, or, ahhh, I lost my job, or, you know, something. Something is going to take place in that time and then it goes right back on the credit cards, and you start up the process all over again.

The key is be comfortable with a certain level of debt as long as you have a plan to say, "Okay, this portion goes towards debt, this portion covers my short term and this is going toward my long term planning." Debt is just going to be a part of your life, unfortunately. On some level and this is good news.

Yeah, especially as it relates to student loans, college loans. You guys and the preceding generations or the generations of student loan debt carrying into retirement. Just kind of as a general thing though, as far as student loans go, it is a tax write off for the interest. You have that aspect of reducing that impact of the interest. Also, as far as weighted debt as to what it actually equates to in retirement. For every $50,000 of student debt it dings about 35 cents on the dollar, so you're looking at, like, it's like ... You'll have $17,000 less in retirement because of paying off student loans over that period of time. For every $50,000. $17,000 sounds like a lot but, again, we're talking grand scheme of things here.

Moving right along. The next step after we have our protections in place is planning for the big items. The big items are college, house, and retirement. Those are the biggies. Again, there's a little bit of variation if you are somebody that's starting a business, owning and operating a business. Really just as a side note on any time business stuff comes into it. If you have a business or are starting a business, doing anything with that, you're just going to have all the same stuff for a personal except on the side. You're going to have income statement, balance sheet, income statement balance sheet. So just [inaudible 00:07:08].

Anyway. The biggies are house, college, retirement. I would merge the two together between prioritizing and plan for in that plan for those things but do it intelligently. Plan for those things but use qualified retirement planning. Use tax advantage assets. Diversify is, I'm sure, the thing that you heard many times over.

As we walk through ... What this sheet is, by the way, the packet itself, is what we would go through with clients as an into to get a sense of what their retirement targets are and then flowing everything through as far as money being set aside to say, "Okay, where do I put the dollar." So if nothing else, when you leave today you're going to have a sense of what your retirement IE financial independence numbers are.

Lastly, if we've checked off all these boxes, of which there's only so many, we've got our insurance needs covered, we're aiming for our house and the kids colleges taken care of and retirement's on target. The next thing that you look at is what are we going to do to pass this on to the next generation. What's our legacy. Charitable gifting, are charities involved, how do you want to set up things for your kids. This is where through Eagle Strategies and New York Life we have access to CPA's and attorneys on retainer. Yeah, that's where you're getting into trusts and estate planning. There's also, as it relates to charitable gifting, there's a lot of when people are in an estate tax category there's a lot of charitable gifting strategies and things that ultimately can do it that way.

Yeah, also, last point on that is one of the issues that seems to come up as far as when you accumulate all this money and handing it off to the kids is the lack of control that exists if you don't have planning. I don't know what ... Some of you might be 18, probably not, okay. Maybe so many. Good. There we go. Making me feel better. I don't know what you're like at age 18 but getting handed $2,000,000 liquid, yeah, generally doesn't lead to good things. Any large chunk of money that's gets handed to you in the form of inheritance. What you could with trust planning in that last category is you create motivational trust for your kids so that basically set it up if they graduate college they get a chunk of money, if they want to buy a house they get a chunk of money, if they want to start a business they get a chunk of money. You can control them from the grave. They have to mow your lawn three days a week.

Okay. That's everything on the macro side. Does that make sense so far. Is there any initial questions just walking through the big picture. Yes.

Speaker 2: I have, actually a question going back a little bit. When it comes to credit card debt in particular, is it better to carry a little bit of a balance [inaudible 00:10:15] or is it better to charge enough on a credit card that you're able to pay off in full or is that ... Does it matter.

Speaker 1: I mean in a perfect world don't carry credit card debt. Because it's negative. If there's an investment those earning -14%. Sort of a way of thinking about it. The debt that you carry on there you're earning negative whatever that is. You're earning -12% or

10% or 15% or 19%

Speaker 3: Credit

Speaker 2: Credit score.

Speaker 3: [inaudible 00:10:52]

Speaker 1: Okay. Credit.

Speaker 3: [inaudible 00:10:52]

Speaker 2: Yeah I was going more in the credit direction.

Speaker 3: It's not worth paying the 15, 20, 30% interest.

Speaker 1: Yeah. Building credit score is sort of, right, a different issue and different set of questions than the debt side of it. Yeah. You do want to establish credit by ... If you have no credit you can go to a bank, and they're going to give you a pay for card where you just give them $200 $100, whatever, and then you use it and buy things with it and then they let you graduate to the credit card and then you max that thing and hate life.

Yeah. As far as building credit score we can get to that a little bit later, yes.

Speaker 4: [inaudible 00:11:35] I know there's some way that people are living above their means but is there a concept where people are living below their means. Like their house is paid off so maybe if your house is paid off. Would that indicate that you should get ... Investment wide you should be buying another house to get the tax write off and then also be building investment.

Speaker 1: In the category, and this is going to cover a lot of questions in different areas is as far as the category of what's the best investment or what's a good investment. Some people say real estate, some people say gold is the best or the stock market, ETF's or this, that, or the other. Everything flows backwards from your goals and objectives. Everything that, you know, every recommendation that's made as far as what where you want to put your money and what you want to d is going to flow backwards from your very specific set of circumstances, what your income are to expenses and then ultimately what your end goals are. We'll touch a little bit more, and you'll get a better feel for that. Yeah, there's pros and cons to every investment vehicle.

As it relates to real estate. Real estate is a great investment, it's a leveraged asset so when you put down $40,000 know you have this $500,000 asset. It comes with a few caveats. Very often having that 30 year mortgage or 15 year mortgage. The thing that I look at most often with clients is mortgage acceleration. We can do, we'll do ... This will be educational for everyone involved.

Speaker 4: [inaudible 00:13:16]

Speaker 1: Sure.

Speaker 4: People buying [inaudible 00:13:21] they're more likely to live above their means but my grandparents or even my parents live, [inaudible 00:13:27] grandparents lived below their means. Pay everything off and that's it. [inaudible 00:13:35]

Speaker 1: Yeah.

Speaker 4: [inaudible 00:13:36]

Speaker 1: You're, yeah. And that's very common because those grandparents were the great depression-esque greatest generation group. That group, yeah. They also had a little bit of an advantage because houses, at the time, were at most 2 to 3 years' salary. Also, loans used to be callable or were more often callable. When it came to getting a house that was the focus because you didn't want the call from the bank, "Hey, we need the remainder of the mortgage." That's ... Yeah, that's very much ... The generations that followed and credit cards and easy lending and money it became a very different story. Especially now we have so many baby boomers heading into retirement and so many of them are extending their mortgages. Very few, you know, even again, like you're saying people, high earners, and all the rest, very few have their houses totally paid off. [inaudible 00:14:31] most of them with the low interest rates right now just [inaudible 00:14:33] another 15, 20, 30 odd years.

I'll touch on that at the end so we don't get too far up field as it relates to real estate. Yeah, for each of these there are little tricks that can be done as it relates to college, as it relates to the house, as it relates to retirement. There's some basic loophole-esque strategies that can put you in a much, much, much better situation than going the conventional route.

Yeah. Again, whether it's making that part of your strategy paying off the house faster. All of that's going to flow backwards from your end target. That's actually what we'll kind of move into next here, if you turn the page.

For some of you, you might not have the current income, but you'll have a good sense of what that's going to be shortly. It's also, this is why we do like talking to groups in your situation. Obviously it's a mixed crowd. You're in a very unique position if you are pre-job heading into a job, and you guys to attest to this on the other side of this fence is when you first have a job and let's just say you make $30,000 as an example. You're out in the real world and $30,000. If anybody asks you what it takes to get by you're like $30,000.

Fast forward 3, 4, 5, 6 years down the road and all of a sudden you're making $80,000, $90,000. You're like, "All right. I'm making $90,000." And all of a sudden your expenses just seemed to have followed right along with it and you asked, "What does it take to get by." "About $90,000." Right. So the question is what happened to that other $50 some odd thousand. Hypothetically if 30 was all it takes to get by shouldn't you have another 50 some odd thousand.

When you're in the position, which is unique in your life, when you're in that first transition into getting a job and actually you were going to pick all of your expenses. Choose wisely. One important expense to add to your life is yourself. You have to pay yourself first. I'm sure you've heard that. Has everyone heard that phrase before.

The idea is pay yourself first before you pay Macy's and Vaughan's and the rent and whatever else. Put you somewhere in that mix because otherwise years and years and years go by without a whole lot of progress.

Yeah, again, you're in this very unique position of you're going to be transitioning into a career and a job and you'll be able to pick every one of your expenses that's recurring. Be very careful as it relates to picking recurring expenses because the habits will follow you. Whatever you start out with, whatever that mental buffer is in life, if it's 5% or if you're an over-spender it doesn't matter the numbers.

This is a unique thing for us is we get to sit down with people of a variety of income ranges, and you would think like, "Oh, somebody that makes $600,000 a year would have plenty of money left over." After taxes ... It's just a bigger house, bigger car. Occasional boat. All that stuff is the same thing. It just ratchets along with you.

Make sure to make part and what really helps with that, and I feel like this is bringing it back to the sheet here, is when you understand your numbers, when you understand, "Okay, if I do this then I'll have this. If I set aside X amount of dollars right now then at the end of this road I'm going to have this as an income for the rest of my life." That's something that gets you inspired. Because it is psychological. It is, like, the parents' generation, there's nothing physically too different between the groups on some level. Sometimes. Yeah, it's a psychological game. The same things that you inherit, you seem like you work out, you guys are in shape, it's like the psychology that it takes to eat healthy and work out and diligently plan and do things that's the same requirements that go with your finances. With your financial health and anything else in life.

You see the people that have plans and have strategies and it tends to work out for them. The people that have vague ideas and sort of vague plans they get vague results.

If we're looking at this financial EKG worksheet. Actually I can even put one up here on the board. There we go. Okay. In this example, $350,000. The first thing that you put in here ... And what I like about this is this is a fill along as you go. You guys have pens, everybody's got a pen.

Speaker 5: [inaudible 00:19:18] target income [inaudible 00:19:21]

Speaker 1: For you guys graduating, what is kind of a typical-ish range of income, do we want to throw out there. What would you say?

Speaker 6: $0 to 60

Speaker 1: 40 to 60. Okay. So, we'll split the difference and say 50. All right. Is this going to be too far off or are you just ... You're following me around the room, all right. That's kind of creepy. There you go. Okay. $50,000. Now. Here's an important distinction that I want to make, and I want to make sure that everybody gets. Instead of the concept of retirement, and especially because I'm speaking to a room of very different goals and objectives. People, what's going on here. IS instead of the idea of retirement what I want to talk to you about is the idea of financial independence.

Financial independence, because retirement we think of, you know, stopping what you're doing, going to Florida, golf, what have you. Financial independence is to say that the asset that you've accumulated over time produces enough income that they outpace your expenses. At that point you're free.

If you can set aside enough in invested assets that it produces an income from those assets that outpaces your expenses you're free. You're free to work because you want to, not because you have to.

Again, hypothetical, if our bills are $3,000 a month and we're able to send you a $3,000 a month passively without doing anything you can work because you want to, not because you have to pay the rent and the utilities and the car and the whatever else.

All of that's good so this is part of this target here as we were planning this out. The first one of these things and we're filling in our buckets as we go. All right so F is financial independence.

If we're saying financial independence, and again, you're sort of filling this in on your side of things. What we're saying in this example the person makes $50,000 and their monthly expenses are $4,000. Why not. The thing is, even if your expenses are taken care of, obviously that's good, but you want to travel, you want to go out to eat. You want to enjoy, maybe, a bit more of what life has to offer. This is, again, more on an individual [inaudible 00:21:57] for each of you is to say, "All right. Lifestyle independence." The thing that we actually aim for is lifestyle independence. How much, and you can look at this as whatever ... I don't know if you guys have read The Art of Tidying Up but the concept of sparking joy. Have you heard of that. Anyway.

The idea behind it is it's this book that's very popular for tidying up your life and never having clutter again. I recommend it. A little endorsement there. The part of the book that they say is you take the first step is you take all your clothes, and you pick up an object, and you ask yourself, "Does this spark joy, is this something that is meaningful to me." If it's yes you keep it and if it's no then you give it away.

The thing is with planning and with everything else if it doesn't spark joy for you, if it doesn't have meaning for you you're not going to do it. If the gym equals ugh you're not going to go. But if the vision is clear enough, and you have this idea, this ideal health or energy or whatever you're going for and that sparks something in you you'll push through the difficult times because planning, in any instance, you're going to hit obstacles. It's what you choose to do at those times where you hit the obstacles, and the easy oath is available where, you know, you're going to get offline.

For you guys, lifestyle independence. Two ways you can look at it. You can say, "All right, a percentage of salary. Do I want 60% of my salary, 70, 80, 90, 100. Or, does it mean more of saying all right, here's $5,000 a month for the rest of your life. Or here's $10,000 a month for the rest of your life. Whatever that number is.

Take a second and look at these first two and say, okay, desired retirement age. For retirement, we're talking about lifestyle independence. The first thing under, right in your present age, so that we can subtract these things. All right, so. For desired retirement income. The way they did it for this one is they did the percentage. This person's making $350,000, 75% of that is $262,000.

Here's the way, if you are leaning towards, "Well I would like a percentage of my salary." I would say if you are the person that's going to not do a whole heck of a lot in retirement, meaning go out on the porch, drink some lemonade and come back inside, you could 50% because your expenses over time, ideally again, your strategizing to have some of the houses and whatever else paid off, 50% of salary can be okay.

If you are more thinking that ... Because the other tradeoff is over time your lifestyle tends to increase, as I was mentioning before, the expenses tend to trail. What you drank as an undergrad for a bottle of wine is going to be a little different, hopefully, than a grad student.

Speaker 6: [inaudible 00:25:02]

Speaker 1: That's right.

Speaker 6: 2 buck chuck

Speaker 1: No more Franzia. Yeah. If you're talking about maintaining equivalent, usually 75 to 80 is what people talk about and recommend. In this case this person was going about that average of 75%. If you want to have a little bit of a step up in lifestyle that's where you're looking at 90 to 100. Some people want to live it up. The good thing, again, is the younger you are the more time that's out there, compounding interest over time all the rest of it, it gets easier and easier to aim at these things.

Speaker 7: [inaudible 00:25:45] somebody that's in their 20s, we'll say. [inaudible 00:25:50] the reality check there is you don't plan to be making ... 20 years from now you don't plan.

I said to them, think of somebody you know that's living the lifestyle that you think you would want to grow into and once your career's gone along for another 20, 25 years. You could probably ballpark what their income is. Get some flavor of the lifestyle you [inaudible 00:26:15] but it's not what you're doing the day that you graduate.

Speaker 1: Right.

Speaker 7: Whatever you're making that $50,000 now I wouldn't say my target, if I'm not [inaudible 00:26:24] 100% of that, probably not it's probably [inaudible 00:26:27] percent of that. The reality is [inaudible 00:26:29] clue in your head what that is but you know people. [inaudible 00:26:36] parents make or some other family members and maybe just instead of putting a percentage it's put [inaudible 00:26:41] $5,000 a month, $8,000 a month, okay, $100,000 a year. Something like that.

Speaker 1: Yeah. If you do a monthly multiply it out into the annual. Again, it's whatever works for you. Percent of salary is an idea or monthly dollars. Again, it's today dollars. We'll deal with inflation and all the rest of it now. To wrap your head around the idea of what inflated dollars would be, which is also why if you have kids, and you show the cost of college spending it makes people want to jump out a window. Is inflation over time makes the numbers seem craziness because it's the added effect of inflation over time and what have you.

All right, we're looking at ... I will say this for this too, as you're filling these out is actually fill them out. Because for most people who are like, "Oh, I'll do it later of I'll hesitate. I don't want to commit to say well this number because it commits me to something." What this ultimately is going to represent is a framework. This is now a framework that we can operate around. If we're saying, "Okay, great. I want $70,000 for the rest of my life at age 60." Good things happens that either the age slides in to 55 or 50. Bad things happens it pushes out or good things happens and you say, "Ah, let's ramp up the income." That's what you're going to be working with an advisor over time is to say, "Okay, we've got our framework in place now, as we move and we readjust as we go along." We'd say, "Okay, well. Good things happen, do we want to increase the income, do we want to slide on the age. Bad things happen and we want to push it out. No matter what you put down there it's just going to lead to an end number to say, "Okay, if I did this on a monthly basis, based on math and science, this is what I'd ultimately end up with."

Does everybody got those down up to this point. Actually, just out of curiosity. We'll just say age. Throwing it out there, does someone want to say the age for lifestyle independence.

Speaker 8: 65

Speaker 1: 65. Okay. Anyone say younger than 65? 60? Older than 60? Younger. 65? 65. You guys are right on with the average retirement age. So. Yeah. What's good is every so often in a room there's an answer of like, 3 years from now. The thing is as it comes with passive income. I'll still make this distinction just because it's important to understand. Passive income, if you had a $1,000,000 earning 5% you'd have $50,000 passively for the rest of your life.

There are people, again, that start business or do things or that ... Are in the entertainment industry that can earn big chunks of money at a time. But that's active income. It requires you to operate the business. It requires you to be a doctor it requires you to be whatever that's this thing that's creating the money in the machine it's coming in. Passive income is your money working for you and your money never sleeps. Ideally we always want to ... and again, even people that win the lottery are people that sell a business and get a big chunk of money, what you ultimately do with that is take a portion, throw it over, get some passive income coming and then mess around with the rest.

Everyone's got their stuff and their desired. Hypothetical return pre and post [inaudible 00:30:36] showed the number there. Haha. Preretirement and in retirement turn. Preretirement, this is basically ... We're going across asset classes this. This is generally just talking about the market. A conservative assumption is something in the 5, 6,% zone. This is the presumes growth on your assets. Whatever they are. Whatever they're invested in or making an assumption to project into the future of saying, "Okay, what can we hope to get on these asset classes."

Preretirement, yeah, again, average probably 7, 8% market over time, over a long, long time is averaged 11ish, but last 20 years not so much so probably 8 and some change.

An average estimate is 7% or so, 7.5. Just to understand what that does to any of the calculations. If you assume that my investments are going to be great your numbers that you have to set aside are going to be smaller but the change that you are being accurate goes down a little bit. You're very optimistic. If you're super pessimistic and you say, "AH, I think we're just going to get 4 or 5% over time." The number that you got to set aside to get there is going to be really big because you're using less of a multiplier to get there.

With this sheet you can always go back in and alter around the numbers and see how it's affects things. For the sake of this I would say 7% is fair. Post in retirement, the old adage is, "I don't care so much about the return on my money as the return of my money." In retirement it's very different because it's an income draw, it's not that I'm earning this particular rate, it's I need this money as an income stream for the rest of my life. What is a safe amount that I can draw.

Interest rates as they are right now, that's anywhere in the 3, 4, 5% zone. That's sort of old rules is 5%. 5% is fair. There's charts and all that thing that you can look at of saying, "Okay, if I'm going to invest in the market la-la-la. What's safe draw." I can show you approximately how many years, in average, an account will last based on the withdrawal rate.

That's what this pyramid is. We have a two part phase going here. We have the accumulation and then we ultimately have the distribution. All these things that are your assets accumulating and building ... Leading to a point where we tip over and then we start sending you income. That is equally as important as the lead up. There's a lot of focus on the accumulation side of things without paying too much attention to the payout on the back end. I use an analogy of climbing mount Everest. I think it's like 219 people have died and of that it's like 193 died on the descent. Make sure to pack extra oxygen. One of this.

What we're doing here now, you carry that desired retirement income over to the top. In this case the person has pensions whether or not you guys have social security it'll be an interesting conversation. Yeah, based on ... It's very rare, I think [inaudible 00:34:01]pension, someone was saying a pension question of something. Pensions are very rare now. It used to be in the 1980's, late 70s early 80s. It was about 75-80% of companies had pensions and now it's the flip of that. It's like 13. I mean, more often than not, it's usually public workers, firefighters, police, teachers, etc. Yeah. Part of it is people who are living a particularly long time so that, let's say, concern of companies, and people tend to move around a bit more now. The average time at a job is 2, 3, 4 year. People shift around. It's not the ... again, the different generation of saying "I'm in this job for 30 straight years and then I'm getting my pension and dadada."

That's what's really changed about the environment as it relates to this type of planning is it used to be pension covered a lot social security gave you a portion too and then you've got your invested assets. Now the pensions fundamentally don't exist, so a whole lot more is falling on personally invested assets to fill in those gaps.

Anyway, on this sheet what you do is you'd subtract pension, pension. Social security. So social security you could throw out an assumption for yourselves. I don't ... The conversation as it relates to social is, is Social Security in trouble, what's going on? They stopped mailing out statements to you so what you can do is you can, if you want to check your social security you go to ssa.gov/myaccount, other slash, I don't know if it's back or forward slash. Actually I can write it on there. My notes are all over the place at this point. Ssa.gov/myaccount. I don't know maybe you can include that in the email or something.

Yeah, you go on there, you answer a few security questions and they're going to give you your social security numbers. Social security numbers always just fall into these categories. It's age 62, 60 in your case, 67 and age 70. This is early, full and max retirement age. By picking 65 as an age social security is going to factor is. As a rule, now, obviously this is down the road a bit, but as a rule now you generally want to take full retirement if you can, especially if you're married because the spousal benefits, it your spouse dies or you die, your benefit carries on to them for the rest of their life. If you do full retirement, if you don't and you come in under full retirement you take it early, those benefits don't carry. There are a couple loopholes, unfortunately, that got closed as it relates to social security. One thing to be aware of is social security gets taxed above $32,000 of taxable income. Not the social security money itself, but income coming in from outside sources.

If you have a pension, if you have 401(k) whatever, all taxable income coming in and you go above $32,000 as a household, $16,000 individual, you start paying taxes on social security income up to 85% of it being taxable. Not 85% taxable.

The way that you want to strategize, one of the retirement, financial independence things to be aware of, is doing what's known as gap planning. If you want to retire at age 62 or 60 or earlier you want to generally pull a little bit more from the taxable income, so you draw down those assets a bit and then once you get to social security draw it right up to the limit. Get to the $32,000 that way it all stays and you're maxing out your social security and then on top of that draw tax free income over the top. It's giving your tax free assets a little more breathing room and time because you're pulling in the taxable and then you blend it through perfectly so that you max out social security and what have you.

Okay. So project social security. For you guys on there, yeah, I mean. Just as an example I would just say if somebody's desired ... does somebody want to volunteer desired income for lifestyle Independence. 50, 60. Okay.

Let's just say it was $60,000. Projected social security would be $24,000. I would just use that as a general little number that you could throw in there just for the sake of walking through these. As soon as you do start working for more than a year then you'll be able to take a look at what your social security projections are. Something in that zone is fair in this instance.

Then what we do is we subtract. Subtract all those things in this scenario it's $262,000, subtract out a pension, social security. $130,000 is our shortfall. Take a look at what your shortfall number is. Obviously knowing that, at this point, these things aren't going to be perfect, but it'll give you a good sense ... try to get it as accurate as you feel like it could be. Ultimately $130,000 is our shortfall.

If we have $130,000 in this example, and we need 5% withdrawals rate is our assumed. WE need to generate $130,000 at a 5% draw, 5% of 2.6 million is $130,000. Does that make sense what we did there.

Whatever your shortfall rate is, so say your shortfall's $50,000 and we're assuming 5% you'd need $1,000,000. $1,000,000 a pool of money. A million bucks is going to send you $50,000 for the rest of your life. If your short fall is $25,000 you need $500,000. That number you just divide by whatever your presumed payout rate is. Still with me? The subway coma is kicking in.

The next thing that we do is we take your current assets. We figure, okay, we need 2.6 million in this instance, or let's say we need $1,000,000 and you've got a 401(k) or you've got an IRA or you've got muni bonds or whatever. We take that amount and then we project it into the future and we subtract it off the total. Okay. At age 65, based in this situation, you'd have $1,000,000. $131,408,000. If someone had $450,000 earning at 7% for 17 years. We'd be at $1,000,000 off of whatever that target is. Since, for most of you guys, unless you just happen to have investment accounts or something off to the side you take what you have, you do it into the future.

Again, for all this the main point is to get a general understanding here.

Speaker 9: [inaudible 00:41:47]

Speaker 1: That's from this example. It says present value, so PV is present value. This is also where you'd be using a financial calculator. For those playing at home with the financial calculator. Does anyone have a financial calculator. A financial calculator basically allows you to do fun ... There are fun math things. It allows you to do interest over time, it allows you to, if you're doing a mortgage you can.

Speaker 10: [inaudible 00:42:20]

Speaker 1: There you go. That's old school right there.

Speaker 10: It's old school but it [inaudible 00:42:25]

Speaker 1: All right.

Speaker 10: Download the app.

Speaker 1: In this instance what you do ... Yeah, there's free apps. I use ... There's ... It's just Financial Calculator. I'm going to see what my app is called. I'm sure you're going to want to impress your friends. It's Financial Calc – is the app. There's free apps, too. What it allows us to do is you take your present asset, in this case $450,000, that's the present value earning at 7% and then you do it over time.

You see how it says the rule of 72 there. This is something that you can use at the next party you go to. Is anyone familiar with the rule of 72. What that means. Okay. Rules of 72 is you take whatever interest rate you're earning and divide it into 72 and that's how many years it takes to double. If you're earning 10% it would take 7.2 years for your investment to double. This is a key point that I'll touch on as it relates to short term versus long term investments. People, right now, with the money market or a cd what are the rates right now. You know. 1%, 1.25% maybe. Maybe 1.75%. If you use that as an example, if you put your long terms assets into a money market and hope to retire off of it and you're earning 1% how long would it take that money to double.

Anyway. Rule of 72. You take the interest and you divide it into 72. If we're earning 1% how many years would it take for that amount to double. Divided into 72.

Speaker 11: 72.

Speaker 1: 72 years. Right. If you're earning 1% on your investment it will take you 72 years for the money to double. That's also taxed, so let's chop that down to .75. So basically 100 years. In most instances somebody will say, "Oh that's a really bad investment." No. Because it's not designed ... It's designed for what it's designed for, which is liquidity and access to money. For liquidity and access to money it's great. It's what's there, it's what's available. It's the rates at the time. If you need access to money and you have to pull money. Money market, cd, great. If you are investing for the long term, not good. Because you need to give up some aspects of that for long term growth.

Speaker 12: [inaudible 00:45:20]

Speaker 1: Inflation, right, inflation's about. That's what ... I think they threw it on there. Inflation's about 2.5%, 3%. It depends ... There's a little inflation chart. I think it might even be on this other thing. Typically, yeah, 2.5%, 3%. Last few year it's been sort of flat but that's a good number to go off of for things.

Okay. Yeah. Rule of 72 based on, in our assumptions here, that's going to tell you how these investments double.

All right. This is also where you get to cheat and use a financial calculator. Case in point, this is using rule of 72 for 18 years. What ultimately our $1,600,000 shortfall in this example or whatever shortfall you guys are dealing with in yours, this is when you punch it into a financial calculator and the financial calculator will say, "Okay, future value, $1,600,000, number of years, 17, 20, 30," whatever the number of years are. The interest assumed and then you press payment and it tells you exactly what it would take to set aside to get to that lump sum based on the assumed interest rate.

In this instance we have [inaudible 00:46:52] at $1,600,000, earning that amount. 17 years. It's $4,323 a month setting aside. But, you also take into account, see on the lower, I guess it's on the left for you. Yeah. Lower left hand side, current contrition. What are you setting aside currently towards this goal. You subtract it out and that gets you your shortfall.

Walking through this, again, I impart this more to you guys as a heads up when you get that job, when you step into that situation of saying, "Okay, here are my expenses, this is my income. I'm aiming at this, let's run through the numbers, and you can be very exact and work it back through math and say, "Okay, that's the shortfall." At the end of the day budget dictates planning. Budget is always going to dictate planning but now you can't say, "Well, I didn't know." Now you'll know your numbers. And now you can work with your numbers. You can, again, slide things out, move stuff in. Whatever you want to do, but you're not operating in the dark as to, "Well, I'll just pick 5% because they match 5," or, "I feel like I should be setting aside more dollars because you know, I'm guilty about my retirement."

If you plan properly, actually fill in our last little bucker over here. This is kind of the strategy of what to do with the dollar at the end of the month. In this case let's say, we've got $1,500. We're earning 5, bills are $3,500. All right. Does this make sense so far. Income coming in is $5,000, bills are $3,500, we've got $1,500 at the end of the month. Where do we put this and this is just kind of a nice little mnemonic device here. You can see this looks like a little sun. SPF for all our Southern California folk here. Especially the paler ones like me.

SPF. S stands for safety so we've got our 5 to 6 months over here of liquid cash in case emergencies come up.

Speaker 13: [inaudible 00:49:20]

Speaker 1: Yes.

Speaker 13: Would you want that safety cash is something that's working for you or is that like savings [inaudible 00:49:28]?

Speaker 1: It depends how much is in there. You're going to build it, generally, over time. So if it's only like a month of two of expenses just leave it super-duper liquid. If we're at 5 to 6 months some people want a year. If you've got a year sitting in cash to your point you have to keep up, at least with inflation so you don't have to go back later and grow towards it so you would layer it. A portion, maybe a month or two, you would be a bit more moderate and then conservative, more conservative so that, again, ideally, it would keep up with inflation.

Yeah. Once you get to that point ... In the beginning just cash, cash. All right. Safety, play and financial independence. We're aiming at age 65 for our little friend here. Imaginary. Draw a person. There we go. Age 65 and I think we said $50,000 coming in. We'll make it $60,000, we'll upgrade. Age 65, $60,000's coming in. Basically, again, at the end of the month you pick a percentage to say what is going to go into each of these buckets. These are the three, three main ones that we operate.

The nice thing with safety is eventually it's going to get full. Once safety is full let's say we were doing 1/3, 1/3, 1/3 into each of these categories, eventually this gets filled up with little gold. Now we just have to throw towards these two. All of a sudden play and financial independence were shifting $750, $750. Or, again, whatever your breakdown is.

This is a very key account, by the way. Play account is basically just taking, and this is going back to your question about credit cards and carrying balances and whatever. Allotting a certain amount each month for you to splurge and blow it on whatever. Because, like dieting and like anything else, we're human beings, you can't possibly have your strategy be, well, I'm going to scrimp and save and not enjoy my life for about the next 25, 30 years so that I can live an equivalent lifestyle 30 years from now, assuming I don't die. Not exactly the most inspiring strategy to go with.

A play account that says, "I'm going to have $750 every month towards whatever I feel like messing around with." And guilt free spending. Spend it on whatever. It's designed to be spent and it's backed by cash so it's not putting money on credit cards. If you're good with credit cards, be careful, if you're good with credit cards then use the credit card and use that money just to pay off that difference. The debit ... The nice thing with this, though, is it always covers ... The other thing that happens, too, is it accumulates.

More often than not what people do is it just sort of money finds its way into random expenses that you don't really think about. When you have a dedicated play account you start thinking about all the trips that you want to take and all the stuff that you want to buy and all the things that you want to do so that your life lines up better around the things that you enjoy in the present and it tends to accumulate. You don't tend to spend all of it in the given month and then it carries to the next and carries to the next and all of a sudden after just two, three months or so you've for 2, 3, 4, 5 grand and instead of thinking, like, oh, well let's go to Paris or let's do this you could do that tomorrow, you could do that in a week or a month versus the, "Well, let's go to Paris, we'll 6 months from now we can see if we can do this or do that."

Once you make it a part of your life where you're incorporating this into what you do it just evens everything out.

Emergencies come up, you've got your safety so that all this is protected over here. Good things happen, you're messing around with play money. Ultimately this is what we've been talking about is the financial Independence bucket so that you're not only enjoying money in the present but ultimately you're setting yourself up for enjoying it in the future for the rest of your life.

Picking the amount of money that goes into any of these three categories is all it really comes down to. Making it a percentage. If your budget is so tight that it's $197 has got to expenses and it's one penny here and one penny there and one penny there. It all starts somewhere. In the same way we were talking about before is like as your income increases and as you get older in life if you make room for yourself by setting aside for these things and start these things early the numbers just increase and everything gets a whole lot more fun and enjoyable and it gets easy.

For those who are religious having 10% tithe or what have you is easy when it's ... Start when it's easy. When it's $10 it's easy to give $1. When it's $1,000,000 it's $100,000 it's kind of a different story. Start the habits early and it gets easier and easier to maintain them in your life.

Our little sheet here. There we go. At the end of the day the next thing that we do with this guide ... I'll sort of fast forward through this is we add in inflation. To your point there's a lot of ... There's computer models and things that we can do or we can do this exact same thing of just punching in the stuff and saying, "Oh, here it is." But when you actually know that math, I mean the same thing what you do in class is like you understanding the end result is great, but the path to actually get there and actually working through it is what gives you that deeper understanding and knowledge. Once you know the math behind, the why behind everything it helps put it in perspective and gives you the easy framework to work around.

We take the same numbers, we increase it for inflation. That's what these bottom lines are. It's $1.6 million given 17 years with inflation is like $3.3. $432,000 a month is like $8,916,000. Do the same thing, subtract. That's where we're at.

Okay. So. The next thing in this packet that we do is an investor profile. We do that for clients where they go through and they get a sense of risk tolerance. We've got a sense of your goals and objectives, your long term outlook. That questionnaire and that quiz is just about have your risk tolerance gauged.

For risk tolerance is ... That's where you've heard the aggressive, moderate, conservative before. So everyone, I'm sure, when you hear diversification go aggressive, moderate, conservative. When you're filling out the questionnaire, and you guys can do that on your own if you like as part of this. I'd recommend it. Yeah, and it gives you a feel at the end for whether you're considered a conservative, moderate, or aggressive investor.

What this is going to help us do is if you go to the last page here, the 6 box pyramid. Again, everything is a pyramid scheme. The 6 box pyramid is there's one other aspect of diversification that we'll kind of hop into and then I'm going it up to some more questions. You want to ... All asset classes have the vertical diversification, which is to say aggressive, moderate, conservative. If we're talking about real estate conservative real estate assets are you're in an area with high population, there's good schools, there's all these other things and you're going to get 3, 4, 5%, hopefully, on your money.

If you're doing interest only loans and flipping properties on the outskirts of Vegas you have a good chance of doubling your money in a month but you can also lose it. Everything follows into aggressive, moderate, conservative. Even you as people. That gets factored in so what you chose as a career. If you're in the entertainment industry or you're doing something where it's high fluctuation income. Or if you're on the farther end of risk, if you're a tenured professor or something where you've got that salary come rain or shine then your investments can be a bit more aggressive whereas if you as the investor, again, are like, "I don't know where the next thing's coming from but it comes in chucks in random." Your investments should tend to be a bit more conservative and available.

Everything has that risk reward game. A lot of the questions that people ask is like, "Oh, is this a good investment," or, "Oh, you know, this stock or that stock or this thing." It comes back to goals and objectives and a line through your risk tolerance because Tesla is a great entertainment stock to watch and be involved with, but it's also like any other individual stock, fairly high risk and highly fluctuating. Everything has to fit into its category as far as what makes sense for you and what's [inaudible 00:58:52].

The second thing, as it relates to diversification, and this is a big one and a lot of what actually, this other part of the seminar goes, is taxes. Tax treatment. The three things that really are used for assuming your investments, and the things that you want to do in the future are your risk tolerance as you perceive it. Your goals and objectives and taxes and inflation. We've covered inflation. We're wrapping up on risk tolerances. The other biggest ... The biggest expense that you will have throughout your entire life is taxes. Especially as it relates to both planning for the future and then also as I even mentioned a little bit briefly as income and retirement.

Tax diversification is key. On this little pyramid this does both for us. It takes your risk tolerance and we say, "Okay, I'm a 60-40." So we've got 60 in aggressive, 20, 20. Then you take the dollars that you say, "All right. We have a short fall of $4,000 so we're going to take 2 over to this side, on this side of the tax fence and we're going to take 2 over to this side. This will be the last things that I'll touch on this is when we're on this side of the tax fence, that is to say when we take the money out we'll be taxed, which is a 401(k), pension, etc. The place that we can't live is conservative. This was what I had touched on before. If we were in a money market account in your 401(k) that's a no-no. Why is it a no-no? Because we have to be inflation, which is 2.5, 3% and then ultimately at the end of the road when you take that money out you're getting take.

If we're in an investment that, on its best day, hopefully gets close to 2.5, 3 and we know inflation is 2.5, 3 and then when you touch it you're going to get hit with 10, 12, 20% of taxes you are guaranteeing yourself setting yourself up for a loss. Especially over a large period of time.

On this side of that fence where we're going to get taxed when we take out the money, your 401(k), 403(b), 457, etc. We want to tend to be more moderate to aggressive. We nix this box and then we push everything up into here. Here's the key, is across asset classes your risk tolerance is going to flow through everything versus just the individual investment. When you sit down and set up your 401(k) they're going to have you fill out a similar risk tolerance profile and you're moderate so your 401(k) is moderate.

The problem is that's not a picture of you that's sort of siloed investing saying, "Well, I'm moderate so this is moderate and this is moderate." Be moderate. Be moderate but do it across all your investments, which is to say there's advantages, too, of again, we've got to outpace inflation and taxes so go more aggressive over here, which is to say what that does is pushed the tax free side a bit more moderate to conservative. You're maintaining your appropriate risk tolerance. Again, it's just across investment vehicles and classes.

Over here on our little tax free side, Roth IRA's, muni bonds, cash value, life policies, etc. Anything that grows tax deferred and we take it out and we pay no taxes. Tax game, it's always a tradeoff. There's three. You either put money in and get a tax write off, it grows tax differed to the government doesn't see it and you take it out tax free. You can't get all three, not legally. Maybe if you're in Panama.

Ultimately you have to pick your poison. It's one of the two. Either we grow tax deferred, take it out tax free, or we get a tax write off now, grow a tax deferred and get hit with the tax later. What this does, again, is flow everything through not only aggressive, moderate, conservative, but your appropriate tax treatment and then you're good to go. I'll put actual dollar amounts into these categories.

One of the big mistakes that's come from the preceding generations and this is a helpful little slide here if I can ... There we go. All right. I'll just use the click thing because this is ... There we go. Nope. Where did it go. There he is. All right. Go to our large version. All right.

So, this is the lovely history of the personal income tax. Starting way back at the origins. This is something that a lot of people are unaware of. When you go back to 1950s, early 1960s, the top earners were in a marginal tax rate of up to 90%. 90%. I was actually reading Ted Turner's autobiography, Call me Ted, another promotion here. It's a great book, but it was funny because he mentioned in the book at one point he was doing some deal, and the person offered like, "Oh, I'll give you a million in cash." And he knew it was a false offer because he would literally lose 90% of it in taxes. So they did all their trades via stock ownership and companies to do maneuvering back then.

Here's the thing. The 401(k) and traditional IRA was invented in 1979. You have basically a marginal rate of somewhere in the 70ish zone. This needs a little more variation to it. Anyway. You had a whole generation that played the game very well because they pre-taxed in pretty high tax environments and then when it came time to retire they're pulling it out in a lower environment, so they avoided these taxes up here and pulled it out and paid tax in a lesser environment.

1994 is when the Roth IRA came out because there was sort of the understanding of "Well, we're sort of developing the reverse problem here. If we have all these people pre-taxing this huge amount of money and when they take it out in retirement what happens if I'm sending you $100,000 a year and the tax rate goes from here to here. All of a sudden it doesn't matter what you make it matters what you keep. It's about net earned income, net spendable income that you get to enjoy versus the gross number on the piece of paper.

This strategy, as it relates to longer term retirement planning, is one that's slower, a bit slower to come around because a lot of the advice has trickled down of, "Oh, 401(k), 401(k). All the money." Because, again, it worked out great for preceding generations but now we're in the ... We got to play the tax diversification game. The great thing about proper tax diversification, if we're saying that same $100,000. If we were pulling $100,000 and, actually, I can do a little mini version of this on the board here. If we're doing $100,000 and we're pulling it out 100% taxed, that's at, let's say 20%. And then we're doing the same thing but we're diversifying so this portion is tax free, the portion is taxed. We've now dropped tax rates. I should do 25, it's probably more accurate. 25%, we net $75,000 in this one year of retirement.

Whereas over here if we're pulling 50 at 50 we get 50 and we now are at a 15% bracket, we get $42,500. Our net spendable versus $75,000 because what we've done is you're pulling $100,000. You're in a much higher tax bracket. When we switch over here we're now only pulling $50,000 taxable because we're pulling the other $50,000 tax free. As a result we drop from a 25 to a 15 so we obviously net all the 50 tax free but now we've dropped tax brackets on that remaining difference and that number is cut in half and reduced.

It's a double effect. It's cut in half and the tax is reduced to we net $92,500. But this is just in one year of retirement. You take that same scenario and you extrapolate that out year over year over year over year and it's a completely different picture as to what actual money you keep again.

Yeah. We've covered a lot of territory as it relates to mainly focusing on financial independence, lifestyle independence, retirement planning, the big pitfalls of inflation, taxes, diversification. All of those will flow through your personal goals and objectives. What matters to you for what that age is or what matter to you for other spending goals. What you want to do with a house or trips or travel. Things that ... Whatever interests you. Your life has to ... You have to breathe life into your financial planning to make it compelling and interesting and make it work and that's kind of the process that takes place.

Any questions right now as we sort of finish up that segment. Yes.

Speaker 14: I have a question about [inaudible 01:09:12] if somebody wants assistance with their financial planning and [inaudible 01:09:21] how does that work in terms of how you work with somebody.

Speaker 1: Yeah. Through New York Life I'm part of Eagle Strategies. It's a fee based financial planning. Basically what we do is we get together, we do consultations with clients and obviously this applies to anybody in the room, anybody watching. Every consultation is free. The way that I look at it is I've done my job, we've done our job. When we take all the information, where you are at right now, where you ultimately want to end up and lead you through that process and then ultimately make recommendations, what you choose to do with them is up to you. People do all of what we say, half of what we say or none of what we say, but at least now they know.

Because there's a huge information gap, and this is sort of a side thing, but the fact that this stuff isn't taught in school is staggering. The fact that for most of these things, like, these are general concepts that effect everybody in this room. Money ranks right up there with oxygen as far as importance, once you're out there and dealing with it. It's not taught. There's nothing.

A lot of what our process is, depending on where somebody's at with investing and everything else, is educating, walking you through these things, getting yourself an understanding of it. Because then, again, you'll commit to it in your life once you own it. Yeah. As far as, for us, we use discretion as far as with the fee based planning, because if it's fairly straightforward and for most of the stuff it is fairly straightforward there's no need to add on an additional advising fee of saying, "Okay, this is how much it is." If I'm working with a business owner that has all these moving parts, and it's estate planning, and it's this, and it's that, and I've got be dealing with the CPA and the lawyer and there's a lot going on, that's where you charge $10,000 or $8,000 or whatever for the planning. Yeah, we get compensated for management of assets and insurance and whatever else get ultimately put in place. Prior to that point, the consultation and everything else is free.

We do a referral practice so if we're meeting with somebody and they like the work that we do and they say, "Okay, here. You should talk to these guys, they know what they're doing." Yeah. It's a little mini advertisement there.

Sort of opening up to ... I'm going to pop back to our question list here. One of the questions I'll bring up there's a video that I have. This is narrated by Tom Selleck, that's very important.

This is a program that we use with our clients. The nice thing, as technologies improve, the old adage what gets measured gets improved, this program is called eMoney through Eagle Strategies. It tracks everything. Your bank accounts, your credit cards, your investments, your loans even you can put your freaking flyer miles on there. Okay. Yeah. Literally it tracks everything in your life so that you're able to know where everything is and then from planning perspective a lot of what we do is when we get back together with clients we're like, "Okay, bring in the statement, how's this doing, how's this doing." This tracks it all and makes it so much easier and as it relates to the play accounts, everything else, you can create budgets for yourself. This is sort of a teaser trailer but you'll get a sense.

Speaker 15: Remember, you were a kid. Things were simple. Life was good. Everything you own could fit into a box. All your worldly possessions in one safe place. It made you feel secure. Time passed, you collected more things and more boxes. Life became less simple. Here's a question. Do you know where everything and what everything is worth. If you don't you should. If you want to know you can.

Now you can see everything you own all in one place. Private and secure location where your data is consolidated into one clear picture of you. Your personal website makes getting organized simple. It's easy to connect with all your financial accounts. As the markets change throughout the day your balances recalculate to keep you up to date. To stay on track you can create a budget and view your spending habits, monitor cash flow, and see your bottom line at any time.

Interactive workshops show how your investment and spending decisions today can impact your lifetime cash flow, affect retirement, and influence your estate scenarios. To review the financial impact of your options, you can collaborate with us online in real time. There's a digital vault where all your important documents can be stored for safe keeping and accessed from anywhere. We provide you with up to date data so you can evaluate your options. With a click, print out reports to see your complete financial picture.

We give you the tools to connect with everything you own so you'll know what everything is worth. All in one place. From Wall Street to Main Street those who know what they have fare better than those who don't. If you want to know we can show you how.

Speaker 1: Yeah. That's the eMoney program. Fantastic piece of software. Not only that on our end it lets us run so many scenario before that were a bit of a nightmare to be honest. If somebody own their home and then they want to downsize in retirement and they're trying to decide, "Okay, well do I buy the retired separate smaller vacation home now or do we downsize, transfer the money, buy that or do we wait until retirement, sell it then." Basically you can cash flow everything, you can include every investment class you can think of. Yeah. It lays it all out and what makes it very easy decision making for people. But again, on the tracking side of things, it's fantastic. Specifically the spending because as soon as you log in you basically just piggyback whatever your logins are so you'll search for Bank of America, your login will come up, you login and then as soon as you do that all your credit cards, the bank stuff just populates on that home page.

From then on, from that day on, it's tracking the spending so when you go out to eat, when you spend money on clothes, when you do anything it immediately categorizes the spending for you. Also, say, it's an instance where you went to Vegas and you pulled out a bunch of cash. You can go back in and re-categorize that spending and say, "Vegas?" Actually, to that point, as far as sharing that information you can share categories, depending on the spending, you can share categories or you can just bring the report or print out the report with you for an annual whatever.

As far as if the stuff that you want to show you could show actual ... It'll show individual transactions. You can show individual transaction, or you know, again, you're going to Vegas, whatever you're doing, we probably don't want to know. It just keeps it categorized. Food, medical, house, car, etc. It makes getting the picture in the grasp on things super easy, especially with debt too. It'll tell you exactly how much money's going out to debt out of your typical budget and ways to deal with those things.

Yeah. I mean, that's pretty much, I think, covering most of the bases. Of that list are there any questions that you guys had that sort of haven't been touched on yet. I'm sure there's a couple as it relates to school or credits or debt or all sorts of things. We nailed it all. Yes.

Speaker 16: Do you have any sort of tips or advice about paying off loans. [inaudible 01:18:26]

Speaker 1: Yeah. I will say there's one little concept that I can sort of throw out there that's a college planning thing for when you do have kids. Unfortunately you're already across the line and now you're dealing with the debt stuff. Yeah, as far as paying debt, again, the loan interest is generally fairly low compared to what's out there, you do get a write off. I would look into where you're going to work because in some instances if you work for a non-profit they will absolve your loans after a period of, I believe it's 10 years, is what the window is.

Yeah. And then if, you know, if it comes up where it makes sense you can look to swap some of the debt around. If it really is a problem, and you want to go about it another way you cannot pay the loans, this is not my advice. You cannot pay the loans and after a certain period of time they'll come after you for a settlement and whatever else and you can come to a settlement on debt that's owed. Not maybe the best way to go about. Because a lot of times some debt consolidation companies and things what they'll do is they'll take your loan and they'll stop paying it. Then they get to the point where they can negotiate the debt with the other company and that's how they ... And then they take a percentage of that.

You go to some debt consolidation or debt payoff company, and they're just going to not all of them, but some, they just let it ride and then the company, the bank is coming to them saying, "Hey, this hasn't been paid in this amount of time." They're like, "Yeah, we're not going to pay it, let's come to an agreement on a settlement." They basically negotiate a settlement for you and take some portion thereof.

I mean in the game of, as far as your credit rating goes, that can ding you for 5 to 7 years. Sometimes that is part of a strategy for people. If they're in serious debt, serious debt problems you figure some of the bankruptcy things and some of the not paying strategies is kind of part of it.

First thing I'd check is just where you end up, where you end up work wise specifically, riding on non-profits. Public health, I guess that's a fairly common.

Speaker 17: [inaudible 01:21:04]

Speaker 1: Yeah.

Speaker 17: [inaudible 01:21:07]

Speaker 1: Yeah. So that's a good one. And if Bernie Sanders is elected then everything's free. Yeah. That's kind of the strategy. As it relates to other debts, consumer debts and all that stuff, some debts in terms of good to bad, credit card debt and store cards and whatever, you're again, -14%, -12%, -18% is what you're working with. Student loans probably a little closer to that. And then good debts are things that are backed assets like a mortgage to a house that something comes up. Cars are, ehh, sort of somewhere in that range, too, because they're depreciating assets unless you got something that you refurbish or work on or do interesting things with. Yeah. That's what I'd say. It's something to take a look ... As soon as you start in with your job, taking a look at both for that reason and then also just how you want to allot payments towards it.

They're pretty good at working with people as to things that won't be too terrible. I will say though, over, if it's a long period of time the paying extra money into a loan and I'll just show you this as an example of real estate. A lot of people, and sometimes you hear the advice of saying, "Okay down your debt as fast as possible on your house and whatever else it is." All right so family A and family B here, we can use, actually, we'll use an example here. We like each other so much I move in next door. Let's assume our houses are very similar. Basically modular housing so we'll say $500,000, $500,000 is what our houses are worth. This is not accurate numbers but let's just say the mortgage is $3,000. $3,000 and $3,000.

Family B, in this case, this'll be me because I'll be the one making the mistake here, is double paying into the mortgage. So I'm going to throw $3,000, another $3,000 at my mortgage every month until it's paid off. The thing is of mortgage interest and some other setups but specifically mortgage interest in this instance is 90% of your initial payment goes towards interest and only 10% is principle. When you're throwing this and whatever remainder at it you would think, "Okay, if I'm double paying a 30 year mortgage should be done in 15." No. Because you're paying so much in interest. If you do double payments you're actually, probably, going to cross over at about year 21. Year 20, year 21, something in that range.

So, you're looking at 21 years of $3,000 going towards the mortgage. What are some things that we know about the mortgage. It functionally earns no rate of return so we're getting 0% growth on this $3,000 that's going for 21 years into this investment.

Here's where people get faked out is because the house is going to appreciate. Our houses are going to grow so in 21 years, depending on the schools, depending on real estate in the area, whatever else, this house at the end of 21 years could be worth $1,000,000 and your house will be worth $1,000,000 and my house would be worth $1,000,000 regardless of how much is actually in the mortgage. You could be drawing all out the money and doing whatever and the house is still going to appreciate.

In this instance we fast forward 21 years. $1,000,000, $1,000,000 you've got $1,000,000 plus $500,000 paid into the equity. So really, again, add a million. Over here, if I'm just paying the $3,000, sorry, this is you. If you're just paying the $3,000 but instead I'm taking $3,000 and I'm putting it into a side fund and that side fund is just earning, you know, 5% something like that. 5, 6, what have you. We take this same scenario and we play it out over the 21 years. Rule of 72, dividing by 5 or 6 or what have you. Basically you're going to double the asset over here. At year 21 I'll have $250,000 left on a mortgage, or you will, sorry. You'll have $250,000 left on the mortgage.

However, in this side fund over here, you'll have something in the category of again, depending on what it's earning, $600, $700. Usually almost the equivalent value of the house off to the side if you're double paying, because, again, you're earning equivalent rate of return. At the end of the road, cut a check. If you want to pay in off in year 21 the same way, do the same thing, but instead of putting $3,000 into this asset earning 0% put it into something on a side fund that's earning, 4%, 5%, 6%, etc. Also, again, what I was talking about before. Life tends to happen so if something comes up you can pull the money out of the side fund here to deal with repairs or expenses, job loss, whatever is going on.

Whereas if we have to get money out over here what do you have to do. You either have to sell the property, which is the extreme version, or you take a loan. The problem with the loan is you could have $1,000,000 in equity in the house and if you don't have a job you don't have a loan because the only way that the bank's ever going to give you any money ... It's not a loan on the equity. It's a loan on you. It's a loan on your ability to pay the bank back.

Again, based on these scenarios the goal is the same for all the stuff. The goal is always the same it was like going back that pyramid. Just go about it intelligently and effectively. Idea's the same, pay it off.

If your debt is extending for forseeably longer amounts of time then use a strategy where it might make sense to allot instead of throwing extra at it have some sort of side fund that you say, "All right. If I do this I can pay it off sooner." Again, why, also, with a lot of the debt pay down strategies it's pulling too much over too long a period of time at something like, yeah, student loan interest. You know, it's tying up too much money that could be working for you in a bigger way. There's a strategy ... One last, this will be my last one. Before I literally have to flee the country. Let's see.

Paying for college. We've hit on a house. We've hit on retirement and we've hit the last milestone thing, we'll talk about college. We'll cover all the bases here and you won't need us anymore.

This is an example, this is a little bit small here but I'll extend it out so people can see. I don't know if there's a zoom lens on that webcam or not. All right. Okay.

Does anybody actually have kids that they are aware of. How old are ... Younger than 5, older than 5. Yes. You guys. My back was turned I was like.

Speaker 18: Younger.

Speaker 19: 17 months

Speaker 1: 17 months and what's one of their names.

Speaker 19: Oliver.

Speaker 1: Oliver. There we go. Example for Oliver here. Family A, family B strategies for setting aside for college. This is the typical money over time. Age 18 is when we're going to school. Should we presume USC. Maybe not. I was going to say as far as money goes that's ... All right. Okay. The national average, just so we'll operate around national averages, the average right now is in and around $120,000 for 4 years in private and about $60,000 for public for 4 years. This area is off the charts so a lot of people are very skewed as to what they think the average cost of college is. Yeah, when you start bringing in Iowa and Mississippi and whatever it kind of pulls the averages.

$120,000, $120,000 in this example. Oliver has been cloned, so we have Oliver A and Oliver B. Here's Oliver's clone. $120,000 set aside at age 18, he's going to school. Now, the thing that you don't want to do, and this is, again, as it relates to what we were talking about with that scenario with the house, is ... And what the common practice is cutting big checks to the university. This is when the university comes and takes me away, and I'm no longer allowed to speak here. All right. What you don't want to do is, ideally, not be in the position where you're cutting big checks to the university. $30,000, $30,000, $30,000 and the money's all gone. Good job for Oliver, school's paid for, but, mom and dad are out $120,000. Not so good.

This example, again, let's just assume 5%. This is what often happens when you're talking about 529's, money markets, CDs, things labelled "college savings." There's this thing known as the FASFA form. The FASFA form is what you fill out when you apply to school so that families can see or schools can see your financials. You're not necessarily applying for the aid itself that way the school can say, "Okay, where is the money."

On the FASFA form there are assets that are included and there are assets that are not included. Included on that are ugma's, utma's, 529s, again, money markets, CDs, liquid money or anything associated towards college savings. The problem associated, specifically as a 529 ... Again, it's not that there are good and bad offerings. Everything has it's fit and purpose. 529's actually, strangely enough, can be used in estate planning because you can shift as a last minute thing, large assets out of an estate to a 529 plan because there's not contribution limits, and you can eat the 10% penalties better than a 40% flat tax. 529's interesting. I have some other uses as well beyond things. Anyway.

The issue is it's required to be year of tuition and expenses. Every dollar that comes out has got to be applied towards year of tuition and expenses, which sets people up for this scenario of accumulating this chunk of money and then having to cut big checks.

In this instance 5%. Ultimately you would have, like, $75,000 or something if people are trying to run through the math on this. If you're earning 5% and it's going down. Realistically is that going to be eaten up in here at some point, yes. Instead of doing this and being on the FAFSA radar screen. Because if we're on the FAFSA radar screen you're ultimately shooting yourself in the foot for scholarship tuition assistance and aide. As it relates to scholarship tuition assistance and aid, they make you fill out the FAFSA form and they say, "Well, hey, you want this, that and the other but you've got $120,000 sitting in that money market, 529 ugma, utma, etc. And we see that now, because it's on this radar screen. Your offer is $120,000 you've got $120,000 we're going to give you this nice round number to offer you.

Yeah, it bothered people in the room because it's like, we'll what's that. You have these families that are setting aside and doing the right thing and you're punishing those people, whereas Jane and John not so helpful Doe don't set aside anything and their kid gets free ride. That doesn't make sense.

All fairness aside let's manipulate the system and do it our way.

On this side of things, for Oliver, non-cloned Oliver. Same idea but instead our before mentioned not so enjoyed student loans now come back in our favor. Instead of cutting big checks to the university instead we take student loan, student loans and we've just pushed ourselves another 4 ... We've gained another 4.5 years of growth. This $120,000 at 5% given another 4.5 years is going to be right around $150,000. You just picked up $30,000 by just using this shift and that's just the first part of it. You picked up $30,000 and this also allows you to continue funding up through the beyond the 4.5 years. Because you don't owe anything until 6 months after the child graduates. We've picked up another 4.5 years of funding that can also go into it.

If you did that, again, you'd probably be up in the $190,000, $180,000 whatever, depending on what you're doing. Anyway. Continuing this example. Now, we've got this $120,000 student loan I was going to say and you guys might know a thing or two about that. We've got $120,000 student loan up here and we have $150,000 asset up here off the radar screen, earning 5% so we've got $7,500. Does anyone see where this is going.

If our asset is earning $7,500 and our loan, typical student loan, $120,000. $500 and some change a month so about $6,000 a year, again, something in that range. You can run the calculators. Call it $6,000. If the loan only costs $6,000, an asset that we have earning is earning $7,500 how much does school ultimately cost. The answer is positive $1,500 a year with maintaining all of this asset. You keep everything that ultimately carries forward to your financial independence well the way over here.

Whatever that day is but now mom and dad get to keep that asset class towards retirement. Or, if you come up short, you're at least getting a way better bang for your buck as it extends where if short here is unbacked loans to the kids, basically. Does this make sense. Did I lose anybody in this little transition here.

To recap. Same idea. We want to cover school as part of the strategy. Some of the methodology that gets us in trouble, cutting big checks to the university using vehicles that require year of tuition and expenses to be paid. We're on the FASFA radar screen. We're shooting ourselves in the foot for scholarship tuition assistance and aide. Same idea. Setting aside for college but instead we're off the FASFA radar screen. We're using leverage, the three things that work in life, there's people at work, money at work and other people’s money at work. We want to use those last two. Money at work, interest gained on the investment. Other's people's money at work, the leverage of loans and now it's arbitrage.

We've got interest earned on an investment outpacing interest required and payment required on a loan so now this asset continues to survive and go into the future versus a full loss over here. We keep everything, and, we are in prime position for scholarship tuition assistance and aide. By being over here, again, best case scenario kid either also kid might not want to go to college. Kid might want to start a business, want to work right out of school, might want to do whatever over here we're penalized for that whereas over here, great. Now you've got all this asset class. Again, scholarship tuition assistance and aide, now we're way over the top and you've got the next kid coming.

I'll give you a real life example, this is really quick. Had a client, she had $300,000 that was sitting in money markets. She was going to use it ... She has two kids heading to school, she was going to use it for school and hopefully have some left over for retirement. We took this money and we shifted it out of the money market and we got it off the radar screen. We took it from earning about 1%, got it up to 5%. $3,000 taxed versus $5,000 deferred. So she went from earning $3,000 to $15,000 a year. First kind comes along, goes to school. He gets a $20,000 ... It's Loyola so it's $28,000. He got a $22,000 scholarship tuition assistance aide, so only $6,000 left for that year. Ultimately he was offered loans for that difference, she said, "Let's just use the interest and kill it," so we did.

Now he's just graduating this year, so all of that asset is intact plus gains. We've actually been, I've been sending her ... She's wanted extra so she's been getting income per month. Now she's got that next kid coming down the line in 4 years who's going to be going to school and we're going to rinse and repeat and do the same thing.

Had we not done that she would have been out something in the neighborhood of $118,000 on top of which, then the next kid coming through and decimating the remainder and then hoping that ultimately she would have nothing for retirement. By shifting it, the first kid is taken care of, ideally the second one is, and if it goes similarly she'll have a $30,000 income in retirement off of that same asset that handled all of those things at the same time.

Again, it's not ... The goals are always the same. The goals are the house, the college, the retirement. It's just about taking effective strategies to get there based on your income, your expenses, your budget and your goals and objectives.

Anyway. That's the ... Unfortunately you guys are already in college so that's ... But. Your children and your children's children. And your children's children's children.

Yeah. That's pretty much it for us. Any other things that you could think of. Yes.

Speaker 20: [inaudible 01:40:36]

Speaker 1: Yeah. There's a number in the range. Also, do we have a seminar evaluation form. I don't know. Yes, the little ones. Little ones cut in half. Cool. Yeah. If you could take a minute while I'm answering questions just to kind of walk through there.

Yeah. There's a lot of good financial books. Some of them, as far as mindset and mentality "The Richest Man in Babylon" is a very simple, very short book. That's where that concept of pay yourself first comes from.

[End of recorded material]