

# *Excerpt from the Book:*

WorryFree Retirement®

## Step Three



# Say Goodbye To Granddad's Retirement

*"Nothin' stays the same."* ~ Tony's father

Were you close to your Granddad? I was. As a young lad, I spent a great deal of time with him. He lived in small community called Troy, just outside Lexington, Kentucky. Because my granddad was so laid back, my Uncle Eddie (his son) referred to the area where he lived as "the land of do as you please." My Granddad's retirement looked something like this: Granddad gets married and goes to work for a big company. Granddad works very hard at this big company, puts in his 43 years (with the same company), retires, and lives off the company pension plan for the rest of his life.

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At the magical age of 65, Granddad retires from the big company. The big company holds a nice retirement party for Granddad. Granddad brings home a nice clock and a plaque for all of his years of service. More importantly, along with his social security check, Granddad knows that a fat pension check will come in the mail every month until he and Grandma (Hazel) die. Granddad smiles, retires and goes home, calling it quits. His life consists of tinkering around the house, smoking cigarettes, drinking lots of coffee and religiously watching episodes of *The Tonight Show With Johnny Carson*. He and Hazel (Haz for short), have a steady income for the rest of their lives.

Their “mailbox” money covered all of their daily expenses. His health insurance was still covered by his former employer. Granddad didn’t need much else because there wasn’t a lot of luxury involved in his lifestyle. He and Hazel didn’t spend much money. Their guaranteed income stream took care of everything. Their vision of retirement was simple; enjoy the rest of their life in Troy. Other than going “to town” once a week to visit the grocery store, I never remember them venturing much outside of Troy. They certainly never took trips and vacations to exotic places. They lived a very humble lifestyle and their

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lives were quite predictable.

While I was around Granddad, I never heard him talk much about money. Actually, the only time I heard Granddad complain about money was when my brother and I would run up the driveway to the country store and buy candy and soft drinks. We'd load up on junk, walk up to the counter of the store, and confidently say, "Just put it on Granddad's tab."

Both of my grandparents are now deceased. They lived less than 20 years past the age of 65. They're dead and gone – and so is this type of retirement for most Americans. Face it; the predictable days of Granddad's retirement are over! As I implied in the previous chapter, more than likely, there will be no "mailbox" money for you and me.

So let's look at today's retirement situation. Because people are living longer, they're going to need their money to last a whole lot longer than Granddad's did. Today, a retirement age of 65 may not be realistic. Granddad had guaranteed Social Security and pension checks coming in each month. What will you have? Granddad had a relatively "worry-free" retirement. Alas, the pension plan of Granddad's day went the

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way of the dinosaur. And Social Security, well, we've already discussed the reality of that system.

If you want to retire like Granddad, you'll need boat loads of money to create your own pension income, because you're not going to get it from anybody else. For example: Let's say you have \$500,000 in your retirement account. This could be your 401(k), IRA, whatever. Keep in mind that the same politicians who created these plans will probably take a bunch of it away when you retire. It's called taxes. Depending on your overall net worth, they have the right to take as much as 80% of it! In other words, the money you saved into these 401(k) type plans gave you a pre-tax deduction. That's a good thing. The drawback to a "pre-tax" deduction is that you have pay taxes on every penny when you go to spend it...that's a bad thing.

But let's say you could make an average of 5% (please forget those 10% returns, most investors don't achieve them) on this \$500,000 account. In other words, you retire, take the \$500,000 that was in your 401(k) plan, roll it into an IRA and invest it for an average return of 5% for the rest of your life. Let's further assume that you and your spouse live 30 years past retirement – which is very possible nowadays. After a

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careful retirement analysis, we determine that the two of you need \$40,000 a year to live on. Keep in mind that that \$40,000 of income must increase each year just to keep pace with inflation. I generally like to assume an inflation rate of 4%. In other words, if you need \$40,000 this year, then based on 4% inflation, you will need \$41,600 next year (4% of \$40,000 is an extra \$1,600 you'll need next year).

Given all of these variables, and based on a 5% after-tax rate of return we're speaking of, you would run out of money at age 79. That's right; at age 79, based on these assumptions, you're now officially broke. That's not what I would call a WorryFree Retirement™ plan.

Pension plans were great for Granddad, but if you're a baby boomer, forget it. A pension income was a huge security blanket for Granddad, but it's going to be a distant memory for most of us. Without the guaranteed pension plan, employees are now being offered what's called a 401(k) plan. The 401(k) plan is a poor substitute for the pension plan. It has no resemblance to a pension plan whatsoever. A 401(k) plan is merely a way for you to set aside money in a retirement account on a pretax basis. Unfortunately, with most people putting their 401(k) balances into growth mutual funds and other risky investments,

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they have no future security. Rather than having a guaranteed pension like Granddad, you're now being encouraged by financial institutions to put your retirement money at risk. And the employer? The only skin they have in the game is to simply "match" a portion of your 401(k) contribution. And this "match" is voluntary. Your employer isn't required to invest their money in your 401(k) plan. It's now all up to you.

Another issue that concerns Americans is the cost of health care. My granddad had all of his health care needs taken care of by his employer. When he retired, they kept his health insurance in force and paid all of the premiums. This probably won't be the case for you and me. With health care costs spiraling out of control, are you prepared to pay for it? Whether health care is a right or a privilege for everyone will not be debated in this book. The fact is, everyone expects good health care. The question is, who's going to pay for it? And with people living longer, we can only assume that health care costs will continue to go up.

In Granddad's day, folks didn't worry so much about their health. They only visited the doctor when they had serious medical issues. There

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were few diagnostic tools available. Even if a serious medical problem was discovered, the medical technology to cure the problem may not have existed. People in Granddad's day got old (if they were lucky) and eventually dropped dead. Today, medical advancements allow people to hang around for years, only to finally end up in some nursing home for the rest of their life. That's another ironic worry created by longer life expectancies. Preventive medicine back in Granddad's day was minimal at best. I can't even remember my grandparents taking prescription medications. Now the average person I meet in their '70s spends \$200-\$500 per month on prescription medication. Today, living longer creates more worry. We're faced with higher medical costs and less money to cover them.

And what about your standard of living as compared to Granddad? When I visit with people from the World War II generation, these folks are amazed at how younger people spend money today. They can't understand why their kids are already more affluent (from a materialistic standpoint) than they are. Granddad's generation hated debt; society today can't get enough of it. Seniors I meet with truly worry how their kids and grandkids will retire when so much money is being spent rather than invested.

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So what's the problem with today's notion of retirement? The advertisers and financial institutions try to convince you to spend and enjoy your money and retire at age 55. In other words, all of this can be yours if you'll just give us your money. Don't worry, be happy. Go ahead, purchase a really nice home (or two), travel the world and spend your money however you want to spend it. We'll be there to take care of you with our 20% returns and wishful thinking.

You can't have it both ways. If you're going to spend and enjoy your money (which is okay by me) then you'll have to work longer than you think (which is also okay by me). However, if you really wish to retire someday, you can't be spending your money and blindly throwing the rest into the world of stocks and growth mutual funds, thinking this will be your savior. That's not investing, that's speculating!

As I see the big picture, most of you are not going to be able to retire like this. Oh, sure, you can retire, but you'll run out of money. That's because you have no financial game plan. Unlike Granddad's retirement, your game plan may have to include working long past the age of 65 in order to support such a lifestyle. As you get older, you're

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going to need more and more money. Because you'll live longer than Granddad, the impact of inflation will catch up with you. A free-spending lifestyle won't help matters either.

Today, people's retirement expectations (speculation) are loftier than Granddad's were. They forget how expensive things will be. Just put yourself to the test right now. Look around your house and compare what you have versus what Granddad had. Imagine Granddad rising out of his grave and coming over to your house to check out your lifestyle. Can you imagine his eyes bugging out, wondering how in the world you could afford all that you have?

Finally, Granddad never worried about the cost of technology. While technology is good, it comes at a huge cost to your retirement. Technology changes so quickly, which means you have to replace gadgets and gizmos more frequently. Change is always expensive. Granddad never spent money on CDs, DVDs, computers, MP3s, cell phones, PDAs, plasma TVs... the list of gadgets goes on and on. And so does the cost.

When I was a kid in the 1960s, gadgets and gizmos didn't exist, at least

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not nearly to the extent that they do today. Granddad's house had only one television and one telephone. Both were located in the family room. There was no cable TV, it was free, compliments of an antenna which was perched on the roof of every home in Troy. Granddad received three channels. If the weather turned nasty, forget it. And there were certainly no PlayStations to contend with. Oh, and one more thing – I know bathrooms don't fall in the gadgets- and- gizmos category, but Granddad's house only had one "reading room" located beside the kitchen (lucky for us plenty of air freshener was on hand). My guess is that even if all those neat toys I mentioned had existed in Granddad's day, he wouldn't have wanted them – mainly because he couldn't have afforded them. Back then, if you didn't have the cash, you didn't get it. There were no such things as credit cards. There was credit, but it wasn't over-used and abused the way it is today. The only credit Granddad had was something called layaway! Layaway was an "easy payment" plan whereby the store put your merchandise aside, and you made regular payments until you had paid in full. Then, and only then, were you allowed to take the merchandise home and actually use it. Although it was a form of delayed gratification – a concept that's alien to many of us today, the upside was that you didn't spend a year or two or more paying for something that you'd grown sick of after having it

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for only a month!

Owning several expensive cars wasn't Granddad's idea of a WorryFree Retirement either. I'm reminded of this whenever I visit my mother in Lexington. She still lives in the same house I grew up in. When our family goes to visit her, the kids are amazed at the narrowness of the driveway. It's about seven feet wide, as are all the other driveways on her street. The home was built in the 1940s, when the vast majority of people owned only one car. There was no reason for builders to consider a 40foot-wide driveway leading up to a three-car garage. Yes, our lifestyles have ratcheted up quite a bit since Granddad's day.

So you can see why retiring like Granddad is going to be difficult, if not impossible. His lifestyle required a lot less money than ours. My advice: Decide right now what it is you really want out of life. Forget Granddad's retirement and forget the modern-day notion of it as well. It's up to you to create a much more realistic expectation of your options for a WorryFree Retirement. You cannot base your options on Granddad's retirement, nor can you base it on the modern-day "have your cake and eat it too" version. Your vision of retirement must be modified and constantly monitored by someone who understands the

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many changes that lie ahead. The Retirement Specialist you choose to work with must also be able to identify strengths, weaknesses, opportunities and threats to your retirement vision. Otherwise, you'll worry.

If I could sum up the point of this chapter – and, in fact, one of the main points of this whole book – it would be with three bits of wisdom that too many people have learned the hard way:

1. Count the cost!
2. Expect change.
3. Remember, a dollar today will be worth less tomorrow.

With those three tidbits in mind, you need to decide right now if there's any way you can live in comfort if you keep on doing things the way you are doing them. Decide today that comfort can be yours. But it must be defined and measured in realistic terms, and only you can do that (perhaps with the help of a qualified specialist). It's your retirement your vision, so you need to see the future through your own set of eyes, not through the eyes of others. Realize that it is your responsibility to decide how and when to retire, and exactly what that retirement will look like. You will need a guide to help you. But make sure the guide is familiar with the road ahead. Make sure the guide has

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the experience to help you set a safe and secure game plan so that you can accomplish your goals