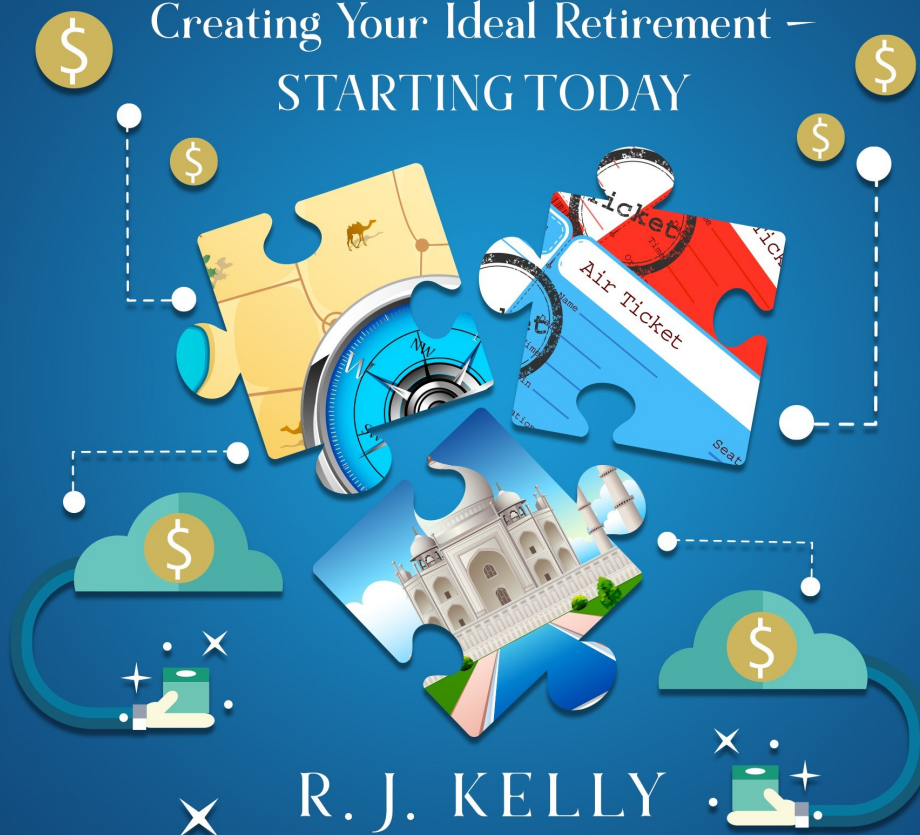


RADICAL RETIREMENT ROADMAP

Creating Your Ideal Retirement —
STARTING TODAY

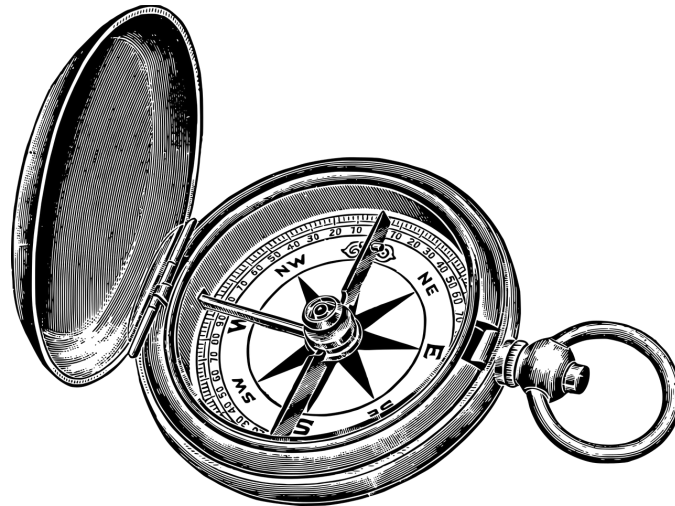


R. J. KELLY
with Caitlin Taylor



The Five Hows

Excerpt from *Radical Retirement Roadmap: Creating Your Ideal Retirement - Starting Today!*
By R. J. Kelly, CAP, ChFC, CEPA, CLU, MSFS, RICP, IAR, AEP, WMCP



How would you feel about driving on a road without any lines? No signs? Nothing to tell you if you're headed toward your destination or even in the right lane? Somehow, I think you would either slow way down, or you might try to find an off-road or exit just so you could get your bearings and figure out where you are. Can you even call AAA this far out of town? I would certainly lock my doors if they weren't locked already!

That's exactly what I find with new clients and friends the first time we talk about retirement. They don't know where the road leads or even where they should stop for gas or snacks along the way.

For example, to make this very personal, can you answer the Five How Questions for yourself?

Can you tell me specifically:

- How soon?
 - That is, what *exact age do you plan on retiring?*
- How much?
 - How much will you need at that point?
 - Will that include a provision for some sort of adjustment over time ... a “cost-of-living” increase?
- How many?
 - How many different sources of income will you have to draw from?
 - Will at least one source provide non-taxable income?
- How long?
 - How long do you expect to live?

Spoiler alert: according to the latest research, it's a LOT longer than most people imagine! (We'll be discussing life expectancy in a later chapter.)

Perhaps, the most important "How Question" of them all ...

- How come?
 - Why do you want to retire?
 - What are your reasons for wanting to "retire?" (Retiring "from" without a retiring "to" is a frequent cause of premature death ... more on this later)
 - What legacy of positive impact will you create?
 - How will the world be a better place because *you were here*?

I call these the "Five Hows" for obvious reasons! And it's here where I believe things need to start. It's long before the "rates of return" discussion - as important as that is - or really before anything else.

Stephen Covey, in his blockbuster book *The 7 Habits of Highly Effective People*, taught us to "*Begin with the end in mind.*"

This is just as true with retirement planning as it is for anything else important in our lives. Most people simply have NOT envisioned what they want for their retirement. With clarity comes action. No clarity ... no actions.

Surprisingly, asking specific questions about what retirement looks like often draws a vacant stare. They simply have not spent the time getting clear about what retirement means to them other than the thoughts of additional time with loved ones, more rounds of golf (or lessons!), and tackling their "bucket list" (if they even have one!)

How about you? What does retirement look like to you?

And what would you say are at least three compelling reasons why you want to retire someday?

Oh ... and while we're at it ... when?

More have an immediate answer as to the "when?" question because it has been drilled into our psyche for most of us since birth. Everyone all together now ... "AGE 65!"

Again, why? Why age 65? (OK ... some are saying age 66 or age 67 because your full Social Security benefits kick in then, but you get the point. Right?)

For most of us, we have been told age 65 so often that we just assume that age has certain mysterious properties as some relic of time. Or is it a rite of passage akin to getting our driver's license or

legally having our first drink of an adult beverage? In a way, it is.

Where do we first see age 65 being set as the “official age” for retirement? Inquiring minds want to know!

How Did Government-Sponsored Retirement Come About?

The first state-sponsored retirement system came from Germany in 1889, proposed by Chancellor Otto Von Bismark. He initially proposed the age of 70, but the German government eventually reduced the age to 65 roughly a decade later. (Nothing said about beer rations, by the way. I think that comes automatically in Germany regardless of retirement age!)

Back then, age 65 was the equivalent of age 110 today! No wonder they chose that age. Very, very few ever got there!

With that precedent, when America established the Social Security program in 1935, we likewise chose age 65. There was no actuarial planning that went into either the selection of age or benefits.

(Actuaries, by the way, are very smart math folks who figure out statistics and how to apply them to the real world for governments, banks, insurance companies, etc.)

In 1930, life expectancy for men was 58, and for women, it was age 62. So again, age 65 was an age few were expected to reach. It was never intended to be a “pay you ‘til you drop” kind of thing. It has become that, however ... again, without any kind of prudent actuarial planning.

Because of enhanced life expectancies, it is now expected that Social Security benefits will be reduced to 77% in 2034 unless Congress pulls a rabbit out of the hat! And, the healthcare system called Medicare is projected to reach a place of negative funding - more being paid out than paid in - by the year 2029.

We'll get into this more later in the book, but in America ... just because ... half of the population begins their Social Security income at age 62! People take this despite having, in most cases, a 30% “haircut” on their benefits rather than waiting until the “normal retirement age” of 65, 66, or 67 (again, depending upon your age.)

Here's a radical thought ... rather than retiring at the first opportunity or because “it's just what you do,” ... how about spending some time first considering the “why?” before the “how soon?” Coming up with solid reasons for your “why?” will not only give you a better pinpoint on the optimal retirement age for you but might also give you more years to happily spend in retirement!

What Makes People Happy? Less Anxious?

In Daniel Pink's book *Drive*, he discusses a study that the University of Rochester does every year

on its graduating class. The research team surveys the graduating students on their aspirations for the future. Then, they sort the aspirations into “extrinsic” goals, such as becoming wealthy, and “intrinsic” goals, such as continued learning or helping others.

The researchers found, upon following up with the students years later into their careers, that the newly-minted adults with intrinsic goals (also called “purpose” goals) had “higher levels of satisfaction and subject well-being than when they were in college, and quite low levels of anxiety and depression.”

But what about the graduates motivated by wealth or fame?

Their self-esteem and satisfaction with their lives were about the same as when they were students. They also showed higher rates of anxiety and depression.

What Are You Retiring To?

Now that you’re thinking about how soon (or maybe rethinking), what about how you want to live? Do you want to travel the world? Start up a passion business? Get involved in volunteering? What about enjoying time with the grandchildren?

Because some of those activities will require more monthly income than others.

I’ve found that the easiest way to start thinking of it is to ask yourself:

Will what I want to do with my retired years cost more, less, or about the same as what I spend now?

If you're looking forward to spending your time catching up on all that reading you meant to do, volunteering, and not doing so much travel, then you're likely in the 75% category.

But if you're planning on keeping life just about the same as it is now, that works out to about 85% of your current income you'll need in retirement.

But, if you're one of the people who are going to leap onto the nearest ship/jet/RV and see the world, you'll need roughly 105% of your current annual income to make the books work for your ideal retirement!

There are many ways to slice the pie in categorizing retirement. A fascinating look at many facets of retirement for Boomers is Ken Dychtwald’s *What Retirees Want*.

He categorizes retirees into categories based on their preparedness and attitudes toward retirement. The descriptions below are quoted from him because he does a great job of making each category crystal clear.

Ageless Explorers (~20%) “...see retirement as a time of opportunity, adventure, exploration, and personal reinvention...They are financially secure in retirement through the recombination of successful careers, financial knowledge and planning, and the fact of saving for 25 years (the most of any segment)... [They] have rejected the life-of-leisure definition of retirement in favor of exercising their freedom to choose new paths.”

Comfortably Contents (~20%) “...approach retirement with a more traditional, less driven view that retirement is reward for a life of conscientious work...their focus is on recreation, fun, and relaxation...They are the most likely of the four segments to say they are having fun and are very happy and healthy in retirement.”

Live for Todays (~20%) “have had active and varied lives and hope to continue with new experiences and adventures in retirement...They have the biggest list of things they’d like to do and would ideally like their retirement to be an extension of their free-spirited lives...They’re not planners...They may have done okay financially, but it was more a matter of pay-as-you-go than save-for-retirement...Because most haven’t planned or saved enough to live comfortably in retirement, they are frustrated with the financial challenges they face in this stage of life.”

Worried Strugglers (~35%) “are, compared with the other segments, the least ready and able to enjoy retirement. They have fewer financial resources and fewer hopes and dreams for what they’d like to do. They report being more worried, less active, less healthy, and less happy...For this segment, retirement is not the ‘golden years,’ but instead a largely unpleasant experience. Yet they report that they’re not giving up and most think of themselves as pragmatic, as survivors.”

In my friend Clay Gillespie’s wonderful book on retirement, *Create the Retirement You Really Want*, he uses the same categories but has more specific numbers, which we used above. He’s also in Canada, which likely has slightly different demographics than the good old US of A.

So...what does that all tell us? I know which category that I’d like to fall into and can guess that if you’re reading this book, you’re likely aiming for either Ageless Explorer or Comfortably Content, too.

By the way, the good news is that on average, the Ageless Explorers have only been saving for retirement for 25 years on average. It’s not something you have to start when you are 20 years old - although I certainly wouldn’t try to talk you out of getting started that young!

Picking one of the above categories of where you want to be helps create an idea of what you are retiring to, or even if you want to retire at all. Maybe instead of enjoying a rest-well-earned, you’ll start a business just for fun or write that novel that has been sitting in the file cabinet for 17 years.

I have a friend who didn’t plan out his “retiring to” very well. Okay, he didn’t plan it at all. He had a demanding, high-stress legal career and was ready to kick back and live the good life.

The good life didn’t last very long. After several months, he’d seen *every movie that was in theaters*. He is a very social guy, so staying in the house all day was not good for him. Turns out, even though he had been looking forward to relaxing for years, he got downright bored...another type of stress altogether.

After some soul searching, he ended up starting a consulting business to keep himself occupied and found ways to volunteer his expertise in his community for folks who otherwise couldn't afford it.

He found his path. But had he considered what he would be retiring *to rather than from*, *he would have saved himself a couple years of frustration.*

And what you're retiring to may change. There are four phases of retirement. You'll see three of these in writing about retirement, but I find there is a fourth phase worth noting. And it's something to keep in mind as you plan what you want to do. To paraphrase:

The Go-Go Phase - you're so happy to be retired! You have all of this time! You're making all of these folks in motivational speeches look bad with your energy and enthusiasm.

The Slow-Go Phase - you may have overdone it in the previous phase. Now, people will pull back and seek more balance between their adventures and enjoying time in their homes or nearby communities.

The Why-Go Phase - You've done all you wanted to do. Why do it again? If you've been on 10 different cruises and it's not your all-consuming passion, why keep doing it?

The No-Go Phase - This is where health typically starts to decline. Travel becomes difficult, and more money is being spent on healthcare costs rather than adventures. It doesn't necessarily bring a decrease in spending. The spending simply changes.

Which leads us to the next question of ... "How many?" By that, I mean, how many buckets of income will you have to draw from? And not just how many buckets will you need or want for income, but how many buckets will you fill for your spouse, your kids, grandkids, community, or charity?

I promise we will go into all sorts of detail on these buckets in Section 2 TK. But here's the idea in the meantime.

Each bucket of income has different tax treatments and behaves differently in the economic cycles (well, most of the time.) You might be familiar with a 401(k). That's one bucket. Retirees and soon-to-be-retirees are commonly offered annuities as a way to "never outlive your money." That's another bucket, and we'll talk about both annuities and how to avoid outliving your money. Your emergency savings is a bucket. Rental real estate could be another bucket.

You get the idea by now.

(More on this in the next two sections and how to build these buckets in Section 3!)

Your Money's Life Expectancy

Our fourth question is, “How long will you need this income?” or “How long do you expect to live?”

It’s a tricky question because it’s a lot longer than most people think. Did you know that if you reach age 60 today, you have over 50% chance of living another 20-25 years (depending on whether you’re male or female.)

That’s a good decade more than the national average life expectancy.

But is it wise to plan to live an average life expectancy? Even if you have decided that you’re going to join me in living to age 147 (hey, I want to celebrate the year 2100), what type of investments do you need to make sure your money lasts that long?

There are investment platforms we can use that provide built-in stop-loss mechanics to make sure you don’t need to spend years recovering from a market downturn - that can keep your portfolio afloat after you’re no longer working to contribute to it. There are other investment vehicles, such as certain types of annuities. We’ll dive extensively into how to make your portfolio outlive you in Section 2. Just some food for thought right now because you will likely live longer than your parents or grandparents. Just sayin’!

The “Raison d’Etre,” The “Ikigai,” The “Point of It All”

(Yeah, I had to look those first two up to figure out what the heck they mean.)

Finally, the last of the five “How Questions” asks, “How come?”

What are the reasons you want to retire? Or, what are the reasons that somebody told you that you’re supposed to and, like many Americans, are doing it blindly without asking why?

What are the reasons you personally want to retire? Maybe you don’t have a good answer to that.

In which case, GOOD!

Retirement is, for the most part, really not good for your health. One of the quickest ways to die is to retire from something without retiring to something. And guess what happens? You won’t want to buy green bananas!

But let’s challenge one another to find reasons that aren’t just about you or me. Let’s make it bigger than that.

We’ve helped clients who worked incredibly hard to break into the “3 Comma Club” (they amassed over a billion dollars.) One, in particular, comes to mind, and I will call him James.

I met James when he recently divorced his 4th wife. His health was declining, and we started on some estate planning. He had gobs of money and didn’t have much of a social network. His children

and grandchildren avoided him at best.

Mark Twain, the legendary humorist, once said, “The two most important days in your life are the day you are born and the day you find out why.”

Our client James never did figure out the why...although he was certainly very financially successful!

We also worked with another woman, let's call her Irene. She was a school secretary who had been forced out of her job because of arthritis. She took what little savings she had and bought a house, fixed it up, and rented it out. Then she repeated this process ten more times until she had a tidy income each month. And, perhaps just as important from a long-term planning perspective, she was building equity in these houses.

I don't recall where she got this idea or strategy because she came to us as she was getting older and wanted to make sure that her estate plan aligned with her values.

We set it up so that upon her death, her two children would get two houses each. With the idea they'd have one to live in if they wanted and one to rent. The other six homes would get donated to her charities and her church.

(Setting this up ahead of time and making sure she wouldn't change her mind also let us get her some fantastic tax deductions, but we've got chapters on tax planning up ahead.)

Irene, as opposed to James, knew what she valued in this life – family and community. She modeled her finances the way she modeled her life, giving her excess time, energy, and money to folks who needed it.

Keep your long-term purpose in mind as you plan for retirement. I believe everyone has one. We just have to discover it...or create it!

Assuming you haven't gone out for ice cream or called the work colleague who still owes you \$50, you have made it to the end of this chapter! Congratulations! Hopefully, you have started to think (or think more) about answers to your five “How Questions”:

- How much are you going to need or want for income?
- How soon will you need/want this?
- How many buckets of income will you have, and how many people will you need to provide for?
- How long should you project needing that income?
- How will your life have a positive impact on our world?

What's next?

How about a few questions to get your own specific answers? Let's dig into the five "How Questions" for your own situation.

For you perfectionists out there (I "are" one, by the way!) ... don't get hung up on having the "right answers." If you don't have an age in mind (I didn't for the longest time), just plug something in. You can "fine tune" it later as you continue to get more clarity in the weeks/months/years ahead.

Check out the questions we have for you at the end of this chapter. These are critically important answers to start getting clear on if you are going to have the amazing retirement you deserve!

The Five Hows Action Items

Your "homework" for this chapter is to find several clean sheets of paper (or more!) and start sketching out your very own answers to the Five How questions. Don't worry. You should not expect "perfect" answers right out of the gate. No. Your answers will very likely change along the way. It happens to us all at this early stage. We're just getting started!

Ask yourself:

- ⇒ How soon do I want to retire?
 - ⇒ Exactly when do I want to retire? Month and year? What age will I be then?
 - ⇒ What's my contingency plan if I am forced to retire early because of work, health, or family reasons?
 - ⇒ At a high level, how much income will I need each month?
 - ⇒ And remember, I will still need to pay taxes in retirement - how much will that be?
 - ⇒ Will I have any "big ticket" expenses in addition to my monthly spending?

- ⇒ How many?
 - ⇒ How many sources of retirement income will I have?
 - ⇒ Will any of them be non-taxable?
 - ⇒ How many people will my income need to support?

- ⇒ How long?
 - ⇒ What is my projected lifespan? What if I end up living to age 100 or longer?
 - ⇒ Complete the <https://www.livingto100.com/> Life Expectancy Calculator

- ⇒ How come?
 - ⇒ Perhaps the most *important question to ask myself is, how come? That is, why do I want to retire - ever, let alone at my chosen age above?*
 - ⇒ What does my ideal retirement look like?
 - ⇒ Do I want to retire at all, or simply change what I'm doing?
 - ⇒ Do I have a personal (or family!) mission statement, and if not, perhaps this is the time in life to draft something?

Learn more about creating your ideal retirement by clicking the images below.



— OR —

Schedule a complimentary 20-min conversation with R. J. by emailing vymean@wealthlegacygroup.com