



Financial Independence Session 1 – What's your number?

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Financial Independence Part 1: What's your number \$, €, £, ¥, CHF...?



Agenda

1. Introduction
2. Opening Questions to Consider
3. How to Approach Financial Independence Calculations?
4. What's My Number \$, EUR, CHF?
5. Group Work & Presentations
6. Solving for the Number
7. Conclusion & Next Steps

Part 1 - Introduction

“You can be young without money, but you can’t be old without it.”

- Tennessee Williams

What is a Financial Planner?



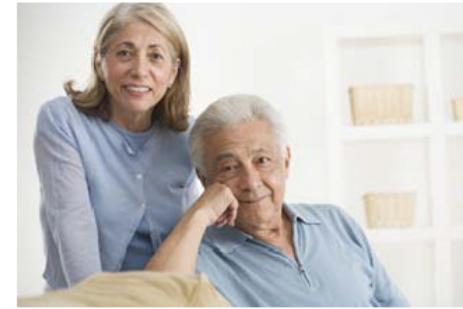
What is a Financial Planner?

- Investment Advisor
- Estate Planner
- Retirement Planner
- Tax & Insurance Advisor
- Personal Financial Coach
- Family CFO



Common Financial Planning Questions

- What age can I afford to retire and stop working full-time?
- Will I have enough money to meet my desired standard of living?
- How much of an emergency cash reserve should I have?
- How much extra should I save or invest each month in pension or non-pension accounts?



Common Financial Planning Questions

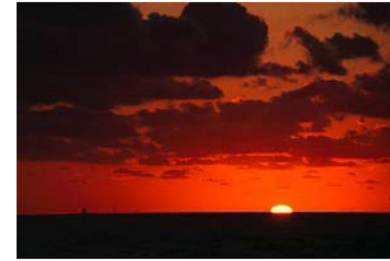
What assumptions should I make about:

- Taxes
- Rates of return
- Life expectancy
- Inflation



Common Financial Planning Questions

- How long is my investment horizon?
- What are my investment goals? How should I manage my investments?
- What wealth should go to heirs or pass as gifts?
- Is charitable giving important?



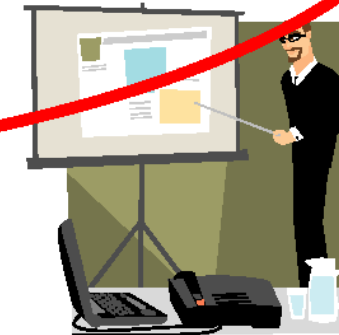
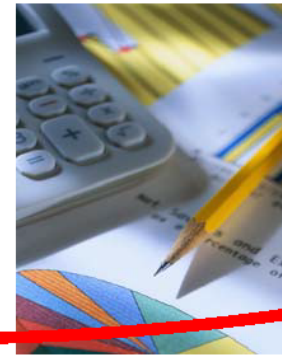
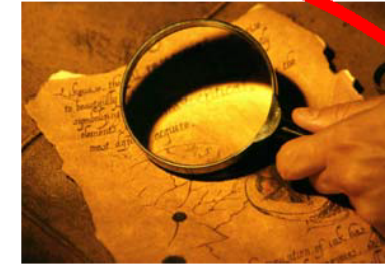
Common Financial Planning Questions

- Do I have potential liquidity requirements (e.g. purchase of a house) during the investment period?
- What is my risk tolerance?
- Is what I am doing legal?
- What is my reference currency (ies)?



Financial Planning Process

1. Define and Agree Scope
2. Discover client needs – gather data
3. Examine goals and alternatives
4. Develop and Present Plan
5. Implement the Plan
6. Monitor and Measure



Today's Focus Question

How much \$ do I need to achieve financial independence?

Benefits of Financial Independence – What are they to you?

- No occupational schedule, deadlines, or bosses.
- Can sleep, watch TV, and eat at your leisure.
- Can travel, play sports, exercise, learn new things, visit with people at your leisure.
- Less, to no, stress, more time, no pressure to perform.
- Can pursue hobby or dream “businesslike activities”: Be an artist, musician, author, etc.
- Can do and work at things you like, when you want to.
- Can volunteer your time to helping others.
- Stop paying some State Social Insurance depending on country (e.g. AVS, Social Security, etc.)

Drawbacks of Financial Independence – Can you think of any?

- Boredom, you may not know what to do.
- Not as much cash flow as when working.
- You may miss people, social interaction, status, and power you had while working.
- Feeling of being useless or unproductive.
- Inactivity may be bad for your health.
- May have to pay private health insurance.
- Spouse will be home...all the time!

Retirement: A New Risk

- Superannuitization
- The biggest risk is not losing money, but lasting longer than your money does.

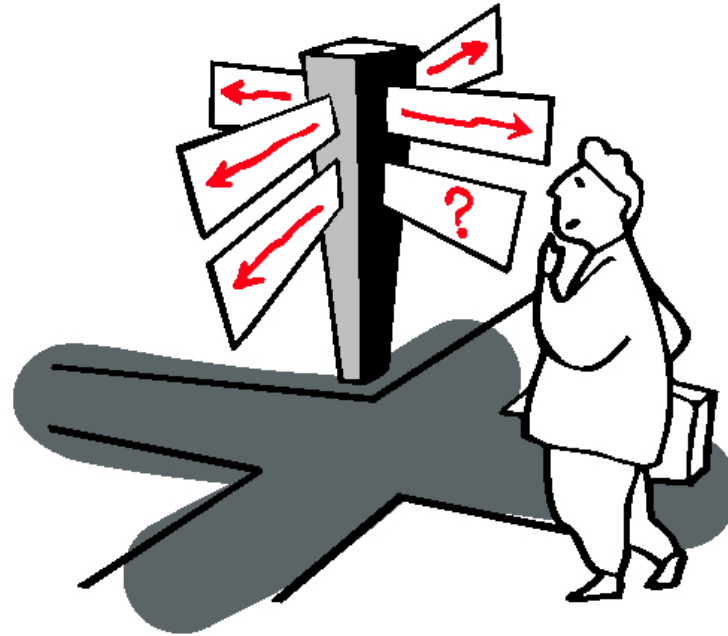
Part 2 – Questions to Consider

“If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability.”

- Henry Ford

Survey Question

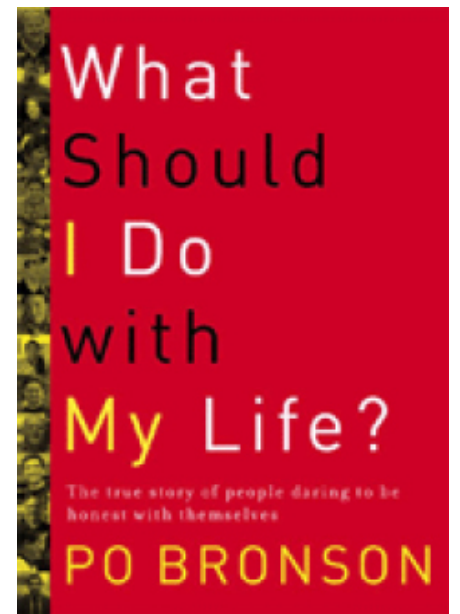
How many people have a good picture of how and where they will spend their time after they stop working?



If you are struggling with answering the question:

I can recommend the following book...A good starting point to helping you find your own answer: “What Should I Do with My Life”, by Po Bronson.

http://www.pobronson.com/index_what_should_i_do_with_my_life.htm



Survey Question

Who's responsibility is it to ensure I have enough money to live on in retirement?

- a. My Employer
- b. My Government
- c. My Banker
- d. I alone am responsible
- e. A combination of a, b, c, and d
- f. Live for today, who cares about the future?



If you are struggling with answering the question:

I recommend that you choose answer D.

Buzz Group Questions

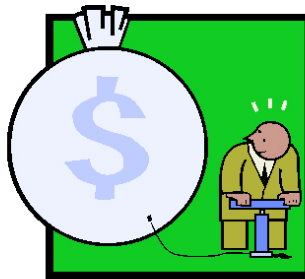
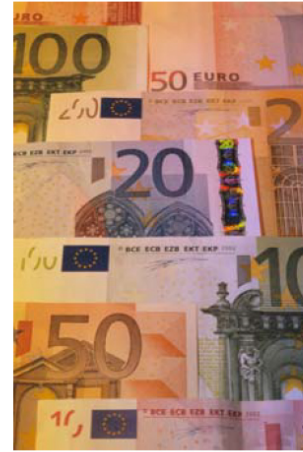
1. Why are you working?
2. If money was no object, what would you spend your time doing?
3. If you returned back to the office after attending this IMD course and your boss called you into the office and said: “Thanks very much, but I have some bad news. You’re fired!”...What would you do? Are you prepared?

Part 3 – How to Approach Financial Independence Calculations?

“It is better to have a permanent income than to be fascinating.”

- Oscar Wilde

How would you approach calculating your financial independence needs?



Part 4 – What’s my number \$, EUR, CHF?

“Wealth – any income that is at least one hundred dollars more a year than the income of one’s wife’s sister’s husband.”

- H.L. Mencken

What's my number? 6 Factor Approach

1. Life Expectancy – Time

“People are living longer than ever before, a phenomenon undoubtedly made necessary by the 30-year mortgage.” – Doug Larson

“In a recent study, researchers have now concluded, despite popular belief, that married people do NOT in fact live longer, it just seems that way.” – Anonymous

2. Taxes

“This [preparing my tax return] is too difficult for a mathematician. It takes a philosopher.” – Albert Einstein

3. Inflation

“Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair.” – Same Ewing

4. Investment Return

“A dollar picked up in the road is more satisfaction to us than the 99 which we had to work for, and the money won at Faro or in the stock market snuggles into our hearts in the same way.” – Mark Twain

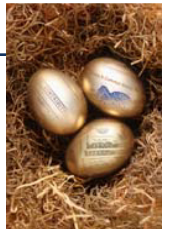
5. Spending Needs

“Budget: a mathematical confirmation of your suspicions.” – A.A. Latimer

6. Percent Covered by Government and Company Pension

“Congress can raise taxes because it can persuade a sizable fraction of the populace that somebody else will pay” – Milton Friedman

Solving for The Number



Part 5 – Group Work & Presentations

5 Groups

1. Time – (Life Expectancy)

“Life expectancy would grow by leaps and bounds if green vegetables smelled as good as bacon” – Doug Larson

2. Taxes

“The difference between death and taxes is death doesn’t get worse every time Congress meets.” – Will Rogers

3. Inflation

“Inflation is taxation without legislation.” – Milton Friedman

4. Investment Return

“You get recessions, you have stock market declines. If you don’t understand that’s going to happen, then you’re not ready, you won’t do well in the markets.” – Peter Lynch

5. Spending Needs

“Our incomes are like our shoes; if too small, they gall and pinch us; but if too large, they cause us to stumble and to trip.” – John Locke

Group Instructions

- Each group will return and present the answer to their specific topic & questions and how and why they arrived at their given answer.
- Several websites are provided as a starting point. (Links are available from the computers in your study room) \Financial Independence\Course 1\Group Work\Group #)
- We will input the group's results into a calculator at the end of the group presentations.
- You have 30 minutes.

Part 6 – Solving for the Number

Solving for the Number

White Lighthouse Retirement Calculator	Inputs
Annual Income (Today) – After tax	\$100,000
Percent of Income Covered by Govt + Company Pension	10.0%
Years Until Retirement	10
Number of Years Required after Retirement	25
Inflation	3.00%
Portfolio Yield – Before Taxes	7.00%
Portfolio Yield – After Taxes – Before Retirement	5.60%
Portfolio Yield – After Taxes – In Retirement	5.60%
Average Tax Rate on Investment Earnings – Before Retirement	20%
Average Tax Rate on Investment Earnings – In Retirement	20%
When You Retire, Your Annual Income Needs Will Be	\$120,952
In 10 years we need a lump sum of (PV of Growing Annuity Stream)	\$2,157,572
Current Year	2007
Retirement Year	2017
Year Portfolio Runs Out	2042

This simple calculator can be used to approximate the lump sum needed in retirement.

Part 7 – Conclusion and Next Steps

- What were your key learning points from today's session?
- What questions does this leave unanswered for you?

Conclusion – Things to Think About

- What we covered today is a beginning, not an end.
- Things change – taxes, laws, jobs, etc. Be prepared.
- More important than how much is how.
What are you going to do with your life?
- Do your research – Use professionals when you need them, but do your homework too.
- The internet is a good starting point for research...but there is a lot of false information too.
- Keep costs low, but high enough to get good value for money.
- Be careful using “calculators” that you did not design. What do the results really mean?
- You are not “average”. Using averages is dangerous in long-term projections.

Conclusion – Things to Think About

- It is your responsibility to live “comfortably” in retirement...Don’t expect too much from your government, company, family or friends...
- There is no exact number. You will need to be flexible.
- Life expectancy will increase. On average, you will live longer than you think you will.
- Be careful about drawing any major conclusions from today’s session. Seek advice of a finance professional(s), especially if you are a finance professional.
- We are in a new “era” of retirement. Are you prepared to live a “career’s” worth of time with our working? Much of today’s commonly available advice was based on yesterday’s facts...Where did retirement at 65 come from anyway?
- Make sure you spend at least 1-2 hours a week preparing for your future. Education, networking, a hobby, talking to recruiters, etc.

What's next?

- Next session – Charting your course – How to reach Financial Independence...
- Assignments:
 - 1) Reading article: “3 Ways to Manage Money”
 - 2) Personal Risk Profile and Asset Allocation See Excel File
 - 3) Assignments and files available from the directory below.
- Extra Reading: Optional
http://www.fpanet.org/journal/articles/2004_issues/jfp0304-art8.cfm
- Monte Carlo Simulation: A comment about averages & the retirement calculator – Monte Carlo simulation is a more powerful tool, beyond the scope of this class.
- Questions after the session? Email: PED@white-lighthouse.com

