

BRIDGING THE GAP

When Guy and Mary came to us, he was 58 and she was 52. He was a professional with a good salary (about \$200,000 per year). She had been a stay at home mom raising their son who, when they first came to meet with us, was 18 and a senior in a private school.

They had made the decision to meet with us because they were concerned that they had not saved enough and faced an uncertain financial future. Actually, I should say that Mary was concerned; Guy said that everything was going to be OK. Women tend to worry more about the future than men, so this difference between them was no surprise. But it was something we needed to explore and find a way to bridge.

We learned some interesting things about their relationship with money. Guy characterized himself as a spender. Mary said that she would like to be a saver but was “currently forced to be a spender.” As we delved deeper into their financial situation we discovered what she meant: They were living beyond their means. Their resources were actually shrinking.

Mary also talked about having given up her financial independence. This is hard for many women who leave the workforce to raise children. This was an important concern that we needed to address in the plan.

We next turned to resources. They had saved only about \$250,000 for retirement. Guy was contributing only 4% of his income to his 401K and, accordingly, overpaying his taxes every year by thousands of dollars. Their savings outside the 401K were decreasing because they were living beyond their means.

Guy’s goal was to retire in 5 years with a retirement income of \$100,000 per year. It was time to face reality.

We ran a retirement income projection and showed them that, if they stayed on the course they were on, Guy could retire in his late 60s with an income of just \$50,000 – not much more than they would get from social security.

But it was not too late for them to change course. Our first suggestion was for Guy to fully fund his 401K. He said that he couldn’t see how he could afford to do that. We pointed out that 95% of households in America made less income than his (he thought it was 50%) and that if he couldn’t fully fund his 401K there was something seriously wrong with their spending.

Mary began talking about getting back into the workforce by setting up her own business. We saw this as the real key to their success. If she could make \$20,000 - \$30,000 per year and put all of that into a retirement plan, they would meet their retirement goals (except for Guy’s wish to retire early).

We then turned to risk management. Because Guy was the breadwinner, Mary could be made poor overnight if Guy didn't make it home. He had only \$150,000 in term insurance – not even one year's salary and less than the balance on their mortgage. Also, his term insurance was for 20 years. We suggested that he greatly increase his insurance, but only for 10 years, which was about how many high income years he had remaining. Our goal was to make sure that Mary would not be impoverished by Guy's demise, but also that she would not have an incentive to hasten his demise.

As we like to say, a financial plan is worthless, but its implementation is priceless. It will be up to Guy and Mary to reduce their spending and dramatically increase their savings. But we had put together a plan that both agreed on. Remember that they didn't even agree whether they had a problem when they first came to us. Now they were on the same page and knew what they had to do – together.