

CALIFORNIA DREAMING

An important aspect of the financial planning process is raising the awareness of the participants as a way to nudge them to make better decisions and to take actions that will increase the likelihood of their achieving their long term goals in life.

But sometimes it doesn't work out that way.

Eve and Adam were in their late 50's. They had a comfortable upper middle class existence. She had her own successful business; he had a well paying job as an engineer. Together they made between \$200,000 and \$250,000 per year. Their children were grown and successful in their own careers.

Adam came to us with the concern most baby boomers have: When can I comfortably retire? He was very interested in retiring when he was just 62, only a few short years away.

We don't know much about Eve's views; she wasn't interested in the financial planning process and declined to attend any meetings. Normally, we won't work with just one spouse, but Eve and Adam had been friends before they became clients 25 years ago. So we made an exception to help them.

We asked Adam about his goals. They were fairly simple: He wanted to retire early and spend summers in their (future) house in Montana. We didn't learn much about Eve's goals, except that she wanted to live in their (future) house in Southern California.

Having established at least their main goals, we turned to their resources. They had a house that was almost paid for. They had a few hundred thousand dollars in savings. And Adam was expecting a modest pension in retirement. Our retirement income projection was clear: They could not achieve their goals unless they dramatically increased their resources. But there wasn't much time to do that.

We looked first at their tax situation. I had been doing their taxes for many years. So I already knew about one problem: Adam was putting only small amounts in his 401K each year and Eve was doing the same with her SIMPLE. As a result, they had overpaid their taxes by \$8,000 in the prior year and had been doing so for as long as I could remember. I told Adam that effective immediately they both had to begin fully funding their retirement plans.

I wasn't prepared for how he responded. He said that they couldn't put more money into their retirement plans because they couldn't afford to do so. And, he added, he was "comfortable" with paying \$8,000 more in taxes than was necessary. And every time I brought up the subject

of saving more, he repeated that he was “comfortable” paying more in taxes than was necessary.

We returned to the retirement income projection, which projected that, if they stayed on the course they were on, they would have only \$80,000 per year to live on. And most of that would be social security. I asked Adam how he could have two homes, travel back and forth between Montana and California, and live comfortably all on 1/3 of his current income. I reminded him that, even though they made a quarter of a million dollars a year, he had stated that he couldn't afford to save more. He responded simply that they could do it.

Adam requested a couple more meetings to review the retirement income projection and to tweak a few numbers. It didn't take long to realize that he was trying to make the numbers come out a certain way to make it look like he could retire early without actually saving more.

Upon realizing what he was doing, we terminated the engagement. He was asking us to confirm that he and his wife could have a comfortable (early) retirement and live in two houses, all without saving more or in any other way reducing their current standard of living. We couldn't and wouldn't do that.