FINANCIAL RESOURCE ADVISORS

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The Financial Journey of 'Soon-to-be' John Deere Empty Nesters[1]

A Healthy View of Money

"Never wish away the now." That's how Carol and Marty[2] take on each stage of their lives, through the many challenges and chances it has brought.

I'm Jay Bullerman, President of Financial Resource Advisors (FRA) of Waterloo. Our team's experiences advising Carol and Marty revealed NINE SIMPLE FINANCIAL LESSONS that can be applied to almost everyone. These lessons are noted in **BOLDED ALL CAPS** in this write-up.

Let's pick up Carol and Marty's story after their kids have all but vacated the family home for lives of their own. As background, Marty is a 55-year-old supervisor with a labor grade of 9 at John Deere. He is married to Carol, a high school Math teacher who returned to the workforce recently after investing almost two decades raising their children. Three of their four children have college degrees with the last one currently in college. Marty's a 'Deere man' who has worked his way up through the years.

Outside observers rarely see the personal struggles others encounter in life – struggles that would swamp lesser boats, emotionally and economically. Significant medical issues, as an example, have a way of interrupting or wrecking long-term financial goals. If life's storms can be weathered, survivors may come out with a 'living in the present' approach to the daily routine. If so, it helps **TAKE THE EMOTION OUT OF FINANCIAL CHOICES**. People can succeed financially if they become good at looking at the facts, making decisions, and then living with the outcomes – both the positive and the 'not-all-roses' ones.

Marty has recently received a promotion at Deere and is making more money than ever before. Carol is back full time in the classroom and is also adding significantly to the family's bottom line. Let's say she has 10 years worth of credit in the Iowa Public Employees Retirement System (IPERS) and plans to work for the next seven to ten years. She likes her work and loves "her" kids so much that she views the work more like a mission than a job.

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[1] This hypothetical couple is presented as a story and case study to educate and illustrate. The actions and examples reflect a composite of Financial Resource Advisors' (FRA) experiences over many years serving clients' needs and objectives. The advisory processes and strategies demonstrate solutions to common issues many people encounter along their financial journey. The objectives for this article are two-fold; to help the reader learn from the stories shared and to know that FRA welcomes the opportunity to discuss their needs and the benefits of professional advice.

[2] We have chosen to write this article partially in story form. Stories teach lessons in an interesting and engaging way. They hold attention while conveying ideas. We have called the two main characters Bob and Eileen, but those names were chosen randomly. Paragraphs involving our fictional husband and wife have been set off in italics. Any resemblance to the financial journeys of real people is purely coincidental.

*With their children out of the house, Marty and Carol's expenses are lower than in the previous 25 years. They have saved for all existing and future college costs, so that big expense won't require additional funding. That was no small task, but they displayed one of the keys to achieving financial independence – **PRACTICE A DISCIPLINE TO SAVE**. It wasn't much to begin with but they have stuck with it. Now with fewer expenses for cars, insurance, food, cell phones, and college tuition, they are in a position to either save or spend more – but can't decide which is most appropriate. They also live with the possibility of larger medical bills in the future.*

Children pick up habits that are taught or observed. As adults, it would be wise to teach the next generation how to understand and handle finances. One time-proven strategy is to **INVEST FOR THE LONG-TERM**. 'The Cycle of Investing' video from Cetera illustrates how fear and greed can fuel short-term reactions that trap many.[3]

Balance and Beginning Early

Everyone experiences tension between wants like new cars, home improvements, and travel versus needs such as bolstering retirement savings or funding a health care account. Adhering to a budget doesn't mean you can't spend money on things you want. Keep an eye on your spending habits and strategize ways to continue saving for those bigger goals. **FIND A BALANCE BETWEEN WANTS AND NEEDS** takes practice and a longer-term perspective. Here are some questions you may have asked.

- What's the right thing to do for our family?
- What are others like us doing?
- How will future cash distributions impact our retirement savings?
- How much do we need to be saving or do we need to be saving more at all?
- What is our real timeline for retirement?
- When is it most advantageous to take Social Security?
- How do we take care of both our kids and our parents if a large financial need comes up?

FRA's counsel for people with so many questions begins with an analysis carried out through our *Money Guide Pro* software. By doing in-depth data gathering and fact finding, we are able to enter several "knowns." Account balances and holdings in current retirement savings, pension projections, Social Security estimates, and financial and spending goals are all entered. We then create a customized plan for each client's situation from the financial information using multiple scenarios including Monte Carlo simulations[4] to calculate probabilities of success.

Our customized analysis helps clients **CREATE A SOLID FINANCIAL PLAN EARLY**, another key strategy to financial security. In a video from Cetera entitled 'The Cost of Procrastination,' a clear example of this principle is given.[5] In it, two people invest the same amount of money for 10 years each. The first invests year 1 through 10 and then stops. The second invests in years 11 through 20.

[3] https://www.fraonline.com/resource-center/investment/the-cycle-of-investing
[4] Monte Carlo simulations are used to model the probability of different outcomes in a process that cannot easily be predicted due to the intervention of random variables. It is a technique used to understand the impact of risk and uncertainty in prediction and forecasting models.
[5] https://www.fraonline.com/resource-center/money/the-cost-of-procrastination

In year 20, the first investor has nearly twice the portfolio balance as the one who started later. This is because of the power of compound interest.

Comfort Through Planning

Marty and Carol's comprehensive plan allowed FRA to determine that their current savings level was sufficient. Because of this, they could work for the next decade and do the home improvements, upgrade their cars, and incorporate a travel budget for some bigger trips. Updating their risk profile and realigning the asset allocation increased their probability of success. We were also able to identify three additional strategies:

1. *Defer Carol's salary into her 403b plan (a tax-sheltered annuity plan open to teachers in Iowa), which they hadn't previously used.*
2. *Use Marty's Roth 401k provision to create more options as they approach retirement.*
3. ***INCLUDE PROPER TAX PLANNING.** Most people don't comprehend that a way to increase wealth is to not pay so much of it out in taxes!*

Big life happenings cause us to **MAKE PLAN ADJUSTMENTS THROUGH THE YEARS**. Health issues, job advancements or layoffs, education, and financially assisting parents or children are just a few of the examples of issues a financial advisor can help people address through a solid financial plan.

A "want" we commonly identify in our annual review sessions with clients is assisting children with major purchases like their first homes or education. Many express a desire to have their kids begin financial planning once they are out on their own. What a great legacy that would be to pass on! At FRA, we have the technology and licensure to assist clients across the country, so I know that we could help family members no matter where they live.

*Over the past year, we also spent time exploring each of Carol and Marty's parents' financial situations. While FRA doesn't offer legal advice, it can be beneficial to **CONSIDER A FAMILY'S ENTIRE ESTATE SITUATION ACROSS GENERATIONS**. By updating wills and power of attorney documents, hosting family meetings, and giving a second opinion on the placement of assets, FRA is able to create more certainty for their parents AND for Marty and Carol. The confidence that their parents were taken care of and the knowledge of eventual estate distribution led to some deeper conversations about Marty and Carol's own legacy planning goals.*

More Good, No Matter What

Retirees often want to use their wealth in the coming years to give back. That's another one of the changes to the plan that comes with age. At FRA, regular review meetings with our clients help measure progress and address issues that arise. Even radical changes in the markets, the economy, and tax laws can be filtered through the clearly outlined set of objectives and the plan.

*Marty and Carol's decision-making seems measured and intentional. It is a skill that they have improved over the years – which, in turn, increases their confidence to proceed with any actions that need to be taken. They **COMMUNICATE ABOUT FINANCES** and that reduces stress around the* *“money issues.” That may be the most rewarding part of the entire journey for financial advisors...helping people develop a healthy relationship with their finances!*

Read more John Deere Case Studies from the FRA files.