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**Money doesn’t buy stuff. It buys choices**

Remember the classic board game by Milton Bradley? Spin the wheel and choose your path for a life of action and adventure tempered by unexpected financial obstacles. Going to college, embarking on a career, starting a family, buying a house, making investments, taking risks and insuring against potential losses - such was the essence of the Game of Life.



Real life bridges personal choices to consequences, especially when it comes to your finances.

William McPherson was a novelist, critic, journalist and editor at the Washington Post where he worked intermittently for a total of about 25 years, awarded the Pulitzer Prize for criticism, taught writing and criticism at several universities. He took a leave of absence to travel to Romania spending seven years exploring and chronicling life there following the execution of dictator Nicolae Ceausescu.

McPherson seemed to be at the top of his game in 1987 at age 53 when the *Post* offered him the choice to return to work there or take an early retirement.

He chose retirement. In his words “…because I was under the illusion – perhaps ‘delusion’ is the more accurate word – that I could make a living as a writer, and the *Post* offered to keep me on its medical insurance program, which at the time was very good and very cheap. The pension would start 12 years later, when I was 65. What cost a dollar at the time I accepted the offer would cost $1.44 when the checks began. Today, what cost a dollar in 1986 costs $2.10. The cumulative rate of inflation is 109.7 percent. The pension remains the same. It is not adjusted for inflation. In the meantime, medical insurance costs have soared. Today, I pay more than twice as much for a month of medical insurance as I paid in 1987 for a year of better coverage. My pension is worth half what it was.”

McPherson suffered setbacks from a major heart attack that led to congestive heart failure, and he lost the ability to continue writing. He considers himself lucky to have qualified for HUD subsidized housing in Washington, D.C.

“I had a successful career and a good life. I never imagined that one day I’d be poor. I look through my checkbooks from 25 and 30 years ago and I think, Wow! What happened?”1

**Can You Afford to Retire Early?**2

**Q:**

I’m 54 and have two daughters ages

10 and 6. My wife and I were advised that we can retire early as long as our annual expenses are less than 3% of our investable assets. We have $2.7 million saved. What say you?

**A:**

At first glance, it would appear that you could safely support a 40+ year retirement, if your annual cash withdrawals were limited to 3% (i.e. $81,000) of a properly invested nest egg, allowing for an annual cost-of-living inflation adjustment. An additional margin of safety would be added if both you and your wife eventually qualify for Social Security benefits.

**But consider these challenges……**

If you experience a major market correction soon after your retirement, the combination of temporary investment losses and withdrawals might sufficiently deplete the value of your nest egg to shorten your financial lifespan.

Your expenses after leaving the workforce could also be much higher than originally projected. One potential wildcard is health care. Even if Obamacare has made it easier to obtain health coverage until you qualify for Medicare at age 65, the cost could usurp much of your budget. Even after Medicare kicks in, uncovered medical expenses can be daunting. (Visit AARP.org for health care cost calculators).

Don’t underestimate the cost of raising your daughters, especially into their teenage years. The U.S. Department of Agriculture recently estimated the average cost of raising a child at $245,340.

If you are relying on cash withdrawals from retirement accounts, you will face additional challenges to avoid paying a 10% penalty tax for early distributions, in addition to the ordinary income tax on retirement funds.

Roth IRAs might be tapped tax-free, and it’s possible to dodge the 10% penalty (but not the ordinary income tax) by carefully following the IRC section “72(t) annuity exemption” by taking “substantially equal periodic payments” (S.E.P.P.) based on IRS life expectancy tables.

Given all of these issues, invest some due diligence in thoroughly assessing your retirement prospects before leaving your job.

Prepare a retirement expenses worksheet with realistic estimates, factoring in the types of costs that historically outpace overall inflation rates (health care costs, college education, etc).

Leaving the workforce in your mid-50s will almost certainly reduce the Social Security benefits to which you will eventually be entitled, and benefits would be reduced even further if you or your spouse begin tapping benefits prior to your full retirement age (67 in your case).

Make an appointment at the Social Security office, or visit their website (ssa.gov) to calculate your estimated future benefits.

Your analysis should incorporate some “lifestyle planning” as well. Examine whether you will stay in your current home or relocate – and estimate the costs of any change. Contemplate how you will fill the hours of each day once you no longer operate within 04a job’s “structure” Will you launch an encore career or business? Or will you travel? Calculate the applicable cash flows needed to accommodate these changes.

Once you feel you’ve nailed down your retirement income and expenses, make adjustments for a smaller savings balance and for higher expenses. This will give you a sense of how much wiggle room you’ll have when faced with unanticipated financial obstacles.

**“I am who I am today because of the choices I made yesterday.”** – Eleanor Roosevelt

**Yes, You Can Retire A Millionaire**3

If you’re an average Joe – or Josephine – reaching millionaire status may seem like an impossible dream. But it’s really not as difficult as you might assume.

You just need to follow certain precepts: Begin saving early. Leverage the power of compound interest. Live below your means. Delay gratification.

Invest in tax-advantaged retirement programs offered by your employer (or if none, invest in your own IRA). Avoid the emotions of greed and fear by sticking with a long-term plan through thick and thin.

***Compound interest has been called the eighth wonder of the world. “He who understands it, earns it; he who doesn’t, pays it,”*** - quote attributed to Albert Einstein.

It cannot be overemphasized that the longer you save and invest, the more compound interest spirals upward.

As an illustration, assume Joe earns average annual return of 10% in stocks and stock funds. Starting at age 30, he would need to invest only

$263 per month to have $1 million by age 65. That’s only $8.65 per day!

But if Joe starts saving five years earlier, at age 25 instead of 30, he’d only need to bank $158 per month, or a mere $5.25 per day!

**Become a conscious spender**

One of the most striking differences between millionaires and the rest of the population is that millionaires practice conscious spending.

Even small recurring cash outlays reduce wealth over time. If instead of spending $72 per month (the national average) on eating lunch out, you invested that amount for 40 years earning 8% per year, you’d accumulate $251,353.

**Mind the impact of taxes and investment expenses on your nest egg**

Those who become millionaires are quick to learn one of the wisest moves is investing pre-tax dollars in retirement accounts, such as 401(k), 403(b), or IRAs. To state the obvious, every dollar that goes to the IRS can’t continue to work for you by growing and compounding over time. Be mindful to minimize the expenses associated with chosen investments. A high-cost mutual fund expense can quickly erode an investment’s return which translates to an enormous difference at retirement.

**Stay the course in a long-term plan**

It’s in the difficult times that future millionaires display their true colors. Having made their plans, they don’t deviate from them during cyclical corrections or allow themselves to be sucked into exaggerated media hype. You will hear the terms “plummeted,” “plunged,” “nose-dived,” “collapsed” or “tumbled” describing a single day’s disappointing market index performance as often as you hear terms like “soared,” “skyrocketed,” and “zoomed” to describe positive market moves.

The fact is that the overall market always bounces back and goes higher over time, and it profits people who stay with it. There has never been a 15-year period when the S&P500 index has lost money.

**Live below your means**

Simply put – spend less than you earn.

**Delay gratification**

Delayed gratification is something of a lost art.

Millionaires-in-the-making know that delaying typical material gratification delivers its own rewards. Watching one’s savings and investments grow is much more gratifying!

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*A Successful journey has two parts: facing the right direction, and taking the first step. - Unknown*

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Sources:

1 *THE WEEK*, December 26, 2014, excerpted from *The Hedgehog Review*, fall 2014, University of Virginia.

2 Walter Updegrave, CNNMONEY.COM – 1/20/2015

3 Jeffry Steele, BANKRATE.COM – 3/24/2015

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Note: our firm’s updated 2015 Form ADV brochure is included with our clients’ quarterly mailing.

Your trust and your family’s long term financial prosperity is our driving force. We appreciate the trust you have placed in us, and we are honored to serve as fiduciary stewards of your families’ and business’ long term wealth.

We hope you find the information in this newsletter useful, and always welcome your feedback.

Best regards,





Managing Shareholder

**4711 NW 53rd Avenue | Gainesville, FL 32653**

**Phone: (352) 373-1080 | Fax: (352) 373-5110 | www.mcdavidco.com**