The Power of Three When it Comes to Your Retirement

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“It’s not hard to make decisions
when you know what your values are.”

—ROY DISNEY

Introduction: The Power of Three

When I was a kid, I had a ritual on Saturday mornings. I would usually wake up before my two older sisters so I would have the television all to myself. I would typically grab the largest bowl I could find and fill it to the brim with Cap'n Crunch, pour in the milk, and plop in front of the TV for Saturday morning cartoons. Those who grew up in the 1970s most likely remember Schoolhouse Rock, the animated musical series that was entertaining and educational at the same time. Schoolhouse Rock had a catchy little tune called "3 is a Magic Number," and it's one of those songs that if you hear it again you can't help but sing along.

Human beings tend to remember things in groups of three, like phone numbers, which are broken into three chunks of digits—the area code, prefix, and line number. It shows up often in pop culture; The Three Stooges, Three's Company, Snap-Crackle-Pop, three wishes, three guesses, the Three Little Pigs, and, of course, Schoolhouse Rock.

Sports is filled with significant threes as well. Horse racing has the Triple Crown—the Kentucky Derby, the Preakness, and the Belmont Stakes. Hockey celebrates the hat trick: three goals in one game by the same player. Baseball is loaded with threes: three strikes and you're out, three outs in an inning, nine players on a team (3x3), nine innings in a game (unless they're tied). Football awards three points for a field goal. Basketball has adopted the 3-pointer, which has revolutionized the sport. Tennis is defined by game, set, match. In golf, three is the

number of strokes players strive to have on most holes because that would result in a great round.

Plays have three acts. The best circuses featured three rings of action going on simultaneously. Realtors tell you the most important three factors in real estate are "Location, location, location." Julius Caesar's most frequently quoted words are "Veni. Vidi. Vici." I came. I saw. I conquered.

For people of faith, the number three biblically represents divine wholeness, completeness, and perfection. It is used a remarkable 467 times in the Holy Bible. There are twenty-seven books in the New Testament, and twenty-seven is 3x3x3. More examples: the three wise men, the three righteous patriarchs, and the three righteous fathers. Of course, Jesus resurrected on the third day, and we have The Holy Trinity: The Father, Son, and Holy Spirit.

In China, three is a lucky number because it sounds like the word for life. Our existence is described in threes as birth, life, death. Time is often described as past, present, and future.

What about when it comes to your retirement? I think you'll be interested in discovering how the number three adds perspective to retirement planning.

Before we get into that, however, I'd like to tell you a little about myself and why I do this.

I've already offered a glimpse of what my childhood was like. Mom would typically already be awake and making her morning coffee and breakfast for the family. But one Saturday morning, everything changed. I was eight.

On that particular morning, when I looked at my mom's face, I noticed something quite different. It was something that I had never seen before in my short life. I noticed a look of concern, a look of deep worry. As a child, I didn't really know what I was observing at the time. I just knew it wasn't normal. I made a mental note of it and then went on about my day.

Fast forward a few weeks later to a family meeting called by my mom and dad. At this meeting, my mom and dad delivered some life-changing news to my sisters and me: my father's business had failed. My dad was in the construction business in the mid-seventies, right after the recession of 1974 and '75. How many folks remember the oil embargo and waiting in line at the gas pump in the mid-seventies? That is the time frame we are talking about and that is when our family business failed.

Upon hearing this news, we naturally had questions. "What is dad going to do?" "Where is dad going to work?"

The next piece of news was even more of a shock: we were most likely going to have to move because we couldn't afford to live in our current home. I have no idea how far behind my parents were on the mortgage payments, but it must have been pretty dire for them to bring it to our attention at the time. Then, the questions really started flying: "Are we going to have to change schools?" "Where are we going to live?"

Then the third and, in my opinion, most devastating piece of news at this family meeting was that my mom would have to go back to work. You see, my mom was a registered nurse and had put her career on hold to raise the kids—something very common back then. Therefore, she was the lady I saw every single morning when I woke up and I also saw every single afternoon when I got off the bus from school.

During the course of a ten- to fifteen-minute conversation at a family meeting, from an eight-year-old's perspective, my life had completely changed! My dad didn't have a job, the family business failed, we were going to have to move and sell the family house, and my mom was going back to work full-time. It was devastating!

Families pull together—and that's exactly what we did. My mom supported the family for a long time, and she never did stop working. My dad landed back on his feet about three years

later after the recession was fully over, working for another construction company.

When it was time to graduate high school in 1986 and go off to college, I had to think about what I was going to study. I decided that I wanted to figure out why my family went through that situation and I wanted to understand why other families faced similar challenges. I wanted to study Business and Economics. What causes these things called recessions? How do markets and economies recover? More importantly: How can I make sure my family never goes through something like that again? Those intentions later blossomed into "How can I help other families prepare for market downturns and stressful financial times in their lives?"

I studied Business and Economics at Towson University in Baltimore. When I graduated in 1991, guess what? The economy was in another recession! I actually landed a job at T. Rowe Price, which at the time was a smaller mutual fund company based in downtown Baltimore directly across from Inner Harbor.

I share this story because it is what drives me to do what I do every single day. The video displays in my office have a saying: "It's not about the money, it's about your life." My passion and my mission are to help families make a plan for LIVING—and make a plan for scenarios such as recessions. We all go through bad times in our lives. My hope is that with a solid financial plan, families can get through those difficult times. If you're at the point of retiring, maybe you can plan well enough that you can actually help others such as family members, friends, loved ones, or the less fortunate get through difficult times in their lives as well. That's what we think it is all about.

This is where the power of three enters our discussion. I would like to share three pitfalls, three principles, and three pillars of investing and planning for your retirement in this book.

If you're ready, get set. It's time to go!

PART 1

Three Pitfalls of Retirement Planning

> *"By failing to prepare, you are preparing to fail."*
> *—Benjamin Franklin*

Pitfall #1: Not Having a Plan

Believe it or not, one of the most common mistakes people make as they plan for retirement is … not having a plan. I would even take this a step further. I think this may be one of the most common mistakes in life. To succeed at anything most people know you have to have a plan. It rarely, if ever, just happens by itself. I'll never forget hearing about the Harvard University study on goal setting and planning conducted in the 1950s. The graduating class of 1953 was asked a question. And that question was, do you have a clear and specific set of goals written down and a plan for achieving them? Only 3 percent of the class had written down their goals and what they wanted to accomplish in the future. Some twenty years later, those same researchers tracked down the class of 1953. They

discovered that the 3 percent with written goals were worth more financially than the other 97 percent of the entire class combined. The researchers also noted that they seem to be happier and healthier than the non-goal setting students.

If you're one of the few who took the time to develop a financial plan, I commend you! However, you're not done. You've got to constantly maintain a plan if you ever want to reach your long-term goals. So many people make the mistake of planning their finances once and thinking they can relax. That's simply not the case. I've seen it many times. They say people spend more time planning a two-week vacation than planning a lifetime retirement.

Simply socking money away in a retirement account such as a 401(k) or an IRA is a great start, but it doesn't truly suffice as a holistic plan. The retirement journey has many potential challenges lurking in the shadows, and without proper planning they can derail the "golden years" you have been looking forward to for so long.

So why do so many people have no plan for the most important and challenging period of their lives? I have my suspicions.

I see a lot of folks who have picked up a bunch of stuff along the way. They have been sold various investment and/or insurance products by multiple companies, agencies, or advisors without truly having a plan in place as to how it all fits together to meet their goals in retirement. We call this the "kitchen drawer" approach to retirement.

I distinctly recall a meeting I had with a couple early in my career. Let's call them Bob and Carol. They attended one of my financial seminars and at the conclusion, they said they wanted to meet with me and go over their plan. Two days later, they came into my office and we sat down in my conference room. After I had gotten them each a cup of coffee, Bob told me his biggest concern.

"I'm worried we're behind," he said. "We didn't get the best jump on things, and I'm worried we'll run out of money when we retire."

When I asked him to explain, he told me a little more about his situation. Over the course of about thirty years, Bob had three different jobs. He'd worked in the printing industry. He owned a small business for a little while. And he was about to retire after nineteen years with a local poultry company. Three jobs generated three separate retirement accounts—two 401(k)s and a SEP IRA. Together, he and Carol had a checking and savings account, some bonds, and a few stocks in a taxable brokerage account. Carol had also moved around in her career. She had an old 403(b) annuity along with a traditional IRA she started and barely funded. The more we got to talking, the more it sounded like they kind of had a *junk drawer* full of investment stuff!

What I'm talking about is probably in the kitchen, just to the left of the coffee pot. This thing is incredible. It has *the* most amazing stuff in it—that rare-sized extra battery for the garage door remotes, the set of those tiny eyeglass screwdrivers, the bottle of super glue, the spare key to your son's house, a paperclip, rubber bands, zip ties, a cellphone charger … I almost believe you could survive on a deserted island with what's in your kitchen junk drawer. It's got some *remarkable* things in it, and yet it's the single most maddening experience to ever have to get into, especially if you have just the slightest hint of OCD. It's just a drawer full of disorganized chaos that makes my eye twitch every time I open it.

The more Bob and Carol talked, the more that's what their situation sounded like to me. I remember her saying, "Well, we've got a *little bit* of a *lot*. And every year, we go in for this appointment where our guy tells us how all that different stuff is doing, and we look at a bunch of different graphs and things, and we nod. But then, we walk out together and just kind of shrug

our shoulders because neither one of us has any idea what any of it *really* means or how it's all going to work together. Can't we just make this *simple*?"

As my career progressed, I soon realized this is much more common than I have ever thought—people who, at some point in their forties or fifties, knew they needed to get started. So, they grabbed the phone, set an appointment, and did just that. I must say, I *credit* them for doing it. They simply got started. And someone helped them get some investments going or put an account in motion here and there.

I see folks like this all the time … they just don't have a *plan*. Or if they *do* have a plan, it's way too complicated and unorganized. In retirement, complexity creates uncertainty. And that concerns me. I've been doing this for many years, and in all that time, I've never understood how anyone could *truly* retire without being confident where their income in retirement was coming from. In retirement, income can truly set the tone for your lifestyle. In that sense, you could say, "Income is the outcome."

Ask yourself this: Do you have a *written* retirement plan in place at this point? To be clear, I'm not talking about a variety of retirement accounts or things you could tap into for money if you needed to. I'm talking about a detailed, yet simple, understandable, and well-written plan.

One of the reasons many people fail to plan for retirement is because retirement can seem like a long way off—particularly when you are in your twenties and thirties. Even in your forties and maybe even your fifties, people might think, "I'll get to that … later." But all of a sudden, "later" is right around the corner—and some folks fail to realize that the sooner they begin planning for retirement, the better off they'll be.

To further explain why starting earlier is better, I'll tell you what is widely known as the "Magic Penny" story. There is a relatively popular anecdote that has been circulating the

financial world regarding a “Magic Penny.” The question is, would you rather have one million dollars today or a penny that doubles in value for the next thirty-one days? Let that sink in for a bit and ask yourself, what would you choose? (And yes, there is a correct answer!)

Here it is. I’ve double-, triple-, and quadruple-checked the calculations on this and if you chose to keep the magic penny, you would have over $10 million by the end of that thirty-one days. To prove it, here is the table below:

Day	Amount
1	$0.01
2	$0.02
3	$0.04
4	$0.08
5	$0.16
6	$0.32
7	$0.64
8	$1.28
9	$2.56
10	$5.12
11	$10.24
12	$20.48
13	$40.96
14	$81.92
15	$163.84
16	$327.68

Day (cont’d)	Amount (cont’d)
17	$655.36
18	$1,310.72
19	$2,621.44
20	$5242.88
21	$10,485.76
22	$20,971.52
23	$41,943.04
24	$83,886.08
25	$167,772.16
26	$335,544.32
27	$671,108.64
28	$1,342,177.28
29	$2,684,354.56
30	$5,368,709.12
31	$10,737,418.24

The lesson here is that saving and investing early is critical. If you ask any professional in the world of personal finance, this is a key theme and should not be taken lightly. There is no actual "magic" involved. Yet the penny shows us the power of compound growth and, in a broader sense, could probably mean years, even decades, when it comes to saving for retirement. So, save early and consistently!

Another big reason planning can seem intimidating is because there's so much information floating around out there now. How does anyone keep up with it all? In my experience, a lot of it is useless and harmful to the investor's state of mind. The good news is you don't have to know everything. You just need to know the right things. Keep in mind, plans come in all different forms. They are, or at least they should be, tailored to each individual, couple, or family. Your journey is unique to you and your retirement strategy should be too. With that established, planning is a fluid process that can differ in each stage. To understand this better, let's explore the three different phases of your financial life.

The Three Phases of Your Financial Life

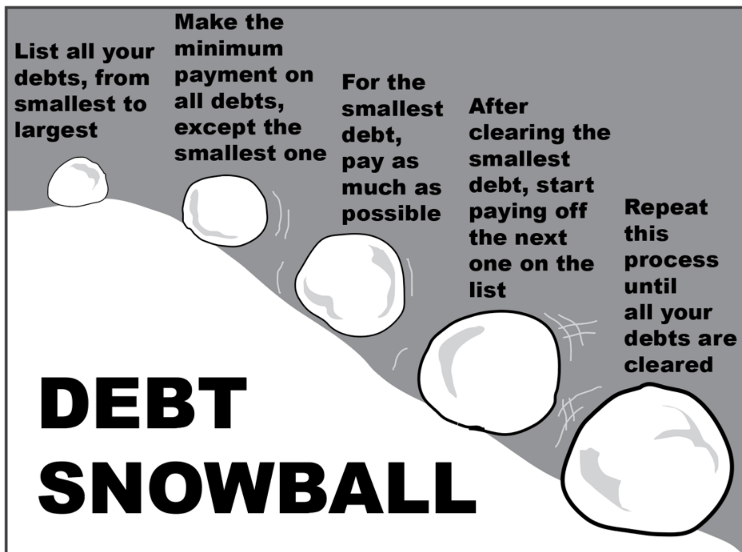
There are typically three phases to your life financially: accumulation, preservation, and distribution. I'll dig deeper into each of them and how you might think about approaching them.

Accumulation Phase: These are the years focused on earning and advancement. These are also among the busiest years of a person's life, both at work and at home. During the accumulation phase, it can be easy to put off retirement planning for other worthy goals and interests, but don't! This is an important time that will help determine your long-term success. You may have decades of working years ahead of you, but you should focus on maximizing your hard-earned dollars.

When it comes to retirement, planning during this phase primarily involves debt elimination, saving an emergency fund, and building net worth. As you're entering the workforce, chances are you may have some student loan debt from college, perhaps a car loan—maybe even a medical bill.

A popular radio personality and personal money managing expert, Dave Ramsey, has what he calls a "debt snowball"

approach to eliminating your debt, and I highly recommend it. Ramsey recommends organizing your debts from smallest to largest. Pay off the smallest debt first while making the minimum necessary payments to your other debts. As soon as that smallest debt is paid off, roll that amount into your next-smallest debt, and pay it off as soon as possible. Continue making minimum payments on the other debts as you progress. Your payments on the smallest debts will grow larger as you go on, just as a tiny snowball gets bigger as it rolls down a hill. Ramsey even suggests taking on side jobs to accelerate debt elimination.



Source: Dave Ramsey, https://www.ramseysolutions.com/debt/how-the-debt-snowball-method-works.

I believe the most important piece of planning during this stage, however, is maxing out your contributions to employer-sponsored plans such as 401(k), 403(b) and Roth individual retirement accounts. How much should you contribute? I usually recommend no less than the maximum amount that your employer is matching because that’s free money. When an

employer matches your contributions, you are essentially getting "free money."

There's a second benefit to making contributions to your employer-sponsored plan that many people forget about: your contributions are tax-deferred, meaning your taxable income for that year is reduced by the amount you contribute to the plan. For instance, if your taxable income for the year is $30,000 and you contribute $2,000 to your 401(k) account, your taxable income shrinks to $28,000. That means the amount of taxes you owe will shrink, too. You'll eventually pay taxes on that 401(k) money when you withdraw it in retirement, but you may be in a lower tax bracket by then and pay fewer taxes on that same $2,000 than you would have had you not contributed it to your retirement account.

Another extremely valuable tool during this phase is the possibility of contributing to a Roth IRA. This type of retirement account is different from a traditional 401(k) or 403(b) in that the contributions are made *with after-tax dollars*. In return for using after-tax dollars, your money grows tax free. When you make a qualified withdrawal at retirement from your Roth account, you pay no taxes on your original contributions and all the growth during the many years the account has accumulated. Many employer-sponsored 401(k) plans have a Roth option, and it would be wise to consult your plan administrator to see if that is available. And for some, depending on income limitations, you may be able to open a Roth IRA account completely separate from your employer and increase more of your tax-free savings possibilities! There are contribution limits and possibly income limits on all of these accounts, so you'll want to investigate those before making any contributions. Also, withdrawals from the Roth are tax-free as long as you take them after age fifty-nine-and-a-half and the account has been open for at least five years.

Preservation or Withdrawal Phase: During this phase, you should start to focus on preserving the assets you have worked

all your life to accumulate. There is no specific age range for the preservation phase simply because everyone's retirement age is different. Some folks may retire very early in age. This may pose a significant challenge because they will have to prepare for a longer retirement. And some may actually never retire, either because they are not financially capable of retiring or they simply enjoy their chosen profession and don't want to retire at any set time.

For most folks, the preservation phase is when time is growing shorter and shorter toward their chosen retirement age. You now have less time to regain any losses that may have occurred in investment accounts that are susceptible to market risk. That is typically about five years before someone expects to retire.

Since timing is so important, you must understand exactly how much risk you can afford to accept leading up to this phase. What is so exciting at this time in history is that "Fintech," or financial technology, has really helped advisors determine the risk tolerances of clients approaching different phases of their investing lives. With a simple risk questionnaire combined with an analysis of a client's existing portfolio holdings, an advisor can narrow in on a risk number that is completely personal and individual to each client. Not all investors are the same. Some can handle a substantial amount of market risk while others are completely risk-averse. Using tools that can compute a personalized risk number from one to one hundred really helps to identify the individual's risk personality and may help them achieve greater success in sticking with the overall plan when markets inevitably become volatile. So ask yourself this question: Do you have absolute clarity around how much risk you are willing to take with your investments as you get ready to retire? In other words, what's your risk number?

Another important step when planning for this phase is to determine the costs of your basic needs—such as food, clothing,

housing, utilities, transportation, and health care—combined with your "fun money" income needs. These expenses can be specific to each person's individual goals for fulfilling their core values and should shape how you invest your hard-earned money during this phase. Keeping some of your money safe during this phase is a key component to achieving a stable income plan—one you can rely on and not outlive.

For all the "do-it yourselfers" out there, it's entirely possible to do all the research, seek out all investment options, and put a plan together on your own. If this is something you really enjoy tackling as part of your retirement years, then I wholeheartedly encourage it. For most folks, though, I think it's wise to seek out financial professionals who focus solely on retirees, or those soon to retire, and all the various challenges they may face.

Preserving what you've accumulated plays a significant role in providing you with an income plan. Retirement and estate planners deal with investments that focus on the preservation of assets. Many investors do not have a sound plan for retirement, so turning to professionals in this area can be a shrewd move.

Modern medicine has improved so much over the years that if a couple retires at the age of sixty-five, there's a 50 percent chance both will live another sixteen years and that one will survive twenty-seven more years—roughly one-third of their life.[1] Social Security and any pensions should continue for as long as they live, but they may not provide enough to live on. This is why intelligent planning for your retirement years is so important.

Some folks think retirement is the "final chapter," but I actually don't! I look at it as a new beginning or a second act, if you will. I love working with folks that approach retirement with this mindset.

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[1] Carla Fried. Rate.com. July 19, 2019. "Whats Your Retirement Number? No, Not Savings – Life Expectancy." https://www.rate.com/research/news/retirement-expectancy.

By the way, it is no accident that The Number of Three comes into play here as well. That's because your actual retirement years are often broken down into three sub-phases. They are commonly referred to as the "go-go years, the slow-go years, and the won't-go years."

The initial stage, let's say the first ten or fifteen years of retirement, is referred to as the "go-go" years. Retirees at this stage typically have their health, they have plenty of energy, and in most cases, have the wealth to do the things they have always dreamed of doing. They also have friends of similar age that have those same characteristics and interests. As an added bonus, you may even have grandchildren young enough to actually want to hang out with you. And yes, you can finally book that long-awaited vacation you have always dreamed about taking with the whole family.

Eventually, however, you'll begin to slow down a bit. Father Time catches up to us all sooner or later. You may not travel as much, and you'll generally start to take it easier as your body lets you know how much it can handle. I call this stage your "slow-go" years. Your spending habits may change a bit during the "slow-go" years. Some of the "fun money" that was set aside for travel may shift toward health care expenses, gift giving, dining out locally with friends, and less extensive travel expenses.

The last few years of your retirement might find you staying home a lot, unwilling or unable to travel because of your health. Except perhaps for medical bills, you may not spend as much as you did early in your retirement. I'm not trying to be a downer here; simply being realistic, I call these the "won't-go" years.

It's important to consider what your spending habits might look like during those three different sub-phases of retirement. Typically, what I see with my clients is that they are spending a bit more in their go-go years, and for the record, I encourage them to do that. They've worked their entire life leading up to this moment of retirement, and I believe it's part of my job to

make sure that they enjoy it while they have their health, and they have the energy. This is yet another reason why having a plan in place is so crucial: so you can genuinely enjoy retirement without worrying about whether you are spending too much money. Showing folks they have the ability to take that European cruise, to go ahead and buy that dream boat, or to take their whole family to Disneyland is one of the most rewarding parts of my job.

So, do you have a written retirement plan? Do you know where your money will come from during these different stages of retirement? Have you got a 401(k) or IRA to supplement your guaranteed sources of income such as Social Security or a company pension? How much you've been able to save in those accounts isn't the only thing that will determine whether you're able to live the way you want to or the way you have to in retirement. What truly matters is the actual plan, strategies, and procedures you have in place.

Distribution Phase: This phase defines what happens to your money *after* your death. Depending on how long you live and your specific estate planning goals, there may not be much left to distribute to your heirs. For those who will leave assets behind, however, it's important to have a distribution—or estate—plan when you depart this life. The more defined that plan is, the fewer the headaches—and perhaps heartaches—for those you leave behind. Remember the "kitchen drawer" approach we spoke about earlier? Just imagine leaving that mess behind for your loved ones to sort out.

You'll also want to distribute your assets in the most efficient and tax-advantageous way possible. Estate planning attorneys and retirement planners can help you get there. Don't make the mistake of thinking, "I'll get to it eventually," because leaving this world without an estate plan in place will not serve your loved ones well. You'll want a will, a durable power of attorney, a health care power of attorney, and a trust or multiple trusts set

up, if applicable, to avoid probate, estate taxes, and possibly nursing home spend-down.

Without proper planning and documentation in place, probate costs and estate taxes may take a substantial bite out of your assets. And bear in mind that you may need to adjust these plans as your circumstances evolve. That flexibility could be valuable as you strive to make the most of your retirement years.