

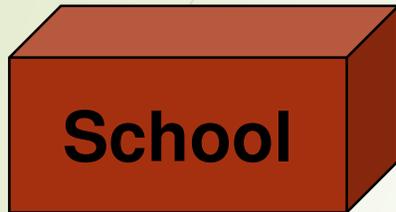
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WWW.BLESSLEY.NET, BUT MOSTLY BASED ON A 12 YEAR OLD PRESENTATION**

Building Your Plan to Have a Life



Kathy Hornbach
June, 2000

The Three Boxes of Life



- What assumptions do you hold about life & work structuring?
- Is this the only model possible?
- The most important step to take: Realize that other models are possible!



Our Story: Why We Examined Our Assumptions

Getting Started: Jan 1992

- ▶ Both 35, no kids, less than \$100k savings, including IRAs
- ▶ Just purchased a big house
- ▶ Both had good positions in high tech
- ▶ Work was becoming less fun
- ▶ Chanced upon "Cashing in on the American Dream: How to Retire at 35"
- ▶ Decided to build a six year plan

How We Approached It

- ▶ Did our homework on investments, life style alternatives, volunteering, traveling -- read books, visited places, went to seminars, talked with people
- ▶ Tracked our spending; changed our spending habits
- ▶ Built a set of detailed and comprehensive investment scenarios and stuck to them

Where We Are Today

- ▶ Eight years into our six year plan
- ▶ Scott got downsized in May, 1994; but landed an even better job at a start-up, with stock options. Just cashed out there, started at another start-up.
- ▶ Significantly above our planned savings
- ▶ I resigned at the end of 1996; free-lanced for two years; went to work 1/2 time; ended up at a start-up via merger
- ▶ We can stop working anytime we want

What Else We Learned Along the Way

- ▶ So many assumptions that we could change
- ▶ Useful learnings even if not "retiring young"
- ▶ Many changes don't have to wait till you retire
- ▶ Lots of fun



It isn't just about retirement

- ▶ Take a “time out” from work for a few years
 - ▶ Change to working intermittently or part time
 - ▶ Change to a career that is less financially rewarding, but is more rewarding in some other dimension
 - ▶ Cut back to one spouse working (or take turns working)
- 



Best Overall References

- ▶ **Cashing in on the American Dream -- How to Retire at 35**
Paul Terhorst, Bantam Books, 1988
- ▶ **Your Money or Your Life**
Joe Domiguez & Vikki Roberts, Viking, 1992
- ▶ **The Joy of Not Working**
*Ernie Zelinski, Visions International Publishing,
Edmonton, Alberta 1991*



Building Your Plan To Have a Life



Do the arithmetic

Do some soul searching

Do what you want

* this list was taken from “Cashing in on the American Dream”



End Goal: Full or Partial Financial Independence

Financial Independence (FI): having an income sufficient for your basic needs and comforts from a source other than paid employment*

* taken from "Your Money or Your Life"



It will be easier for some than others...

Easier

- Without kids
- Mid 40s or older
- Couple
- Higher salary
- Lucky breaks (inheritance, lottery, stock options, etc.)
- Continue working part-time

Harder

- With kids
- Mid 40s or younger
- Single
- More modest income
- No breaks
- No paid work

How much are you trading your life for?

Salary:	(all figures are per year)	80,000
Less:	Federal and state income tax, social security & medicare (30% is a good estimate if you're not sure)	24,000
	Commuting costs: car, insurance, gas, parking, repairs (assume 40 miles/day *.35/mile)	3,500
	Wardrobe costs: clothes, shoes, coats, dry cleaning, hairstyling	1,500
	Childcare	10,000
	People who you pay to do things you don't have time to do: lawn, housekeeping, easy repairs, pet sitting, grocery delivery	2,500
	Eating out because there's no time to cook	1,000
	Recovery costs from overwork: cost of vacations to relax, health costs from stress-related illnesses, etc	1,000
	Total costs of working, yearly (add above lines)	43,500
Net Salary:	Subtract total costs from salary	36,500

Hours:	"Official" hours per week you're supposed to work	40
Add:	Addition number of hours/ week you're at the office	8
	The hours/week you do work at home per week	4
	Commuting time per week	5
	Non-work hours spent travelling, average per week	8
	Time you spend getting ready for work in the morning & decompressing at night	8
	Time you spend socializing with work people or clients "because you have to"	1
	Time you spend arranging others to live your life for you	1
Total hours:	Add all the above	75
Hours /Year	Multiply the previous line by 50 (=hrs/year)	3750
True Hourly Wage	Divide net salary by the previous line	\$9.73

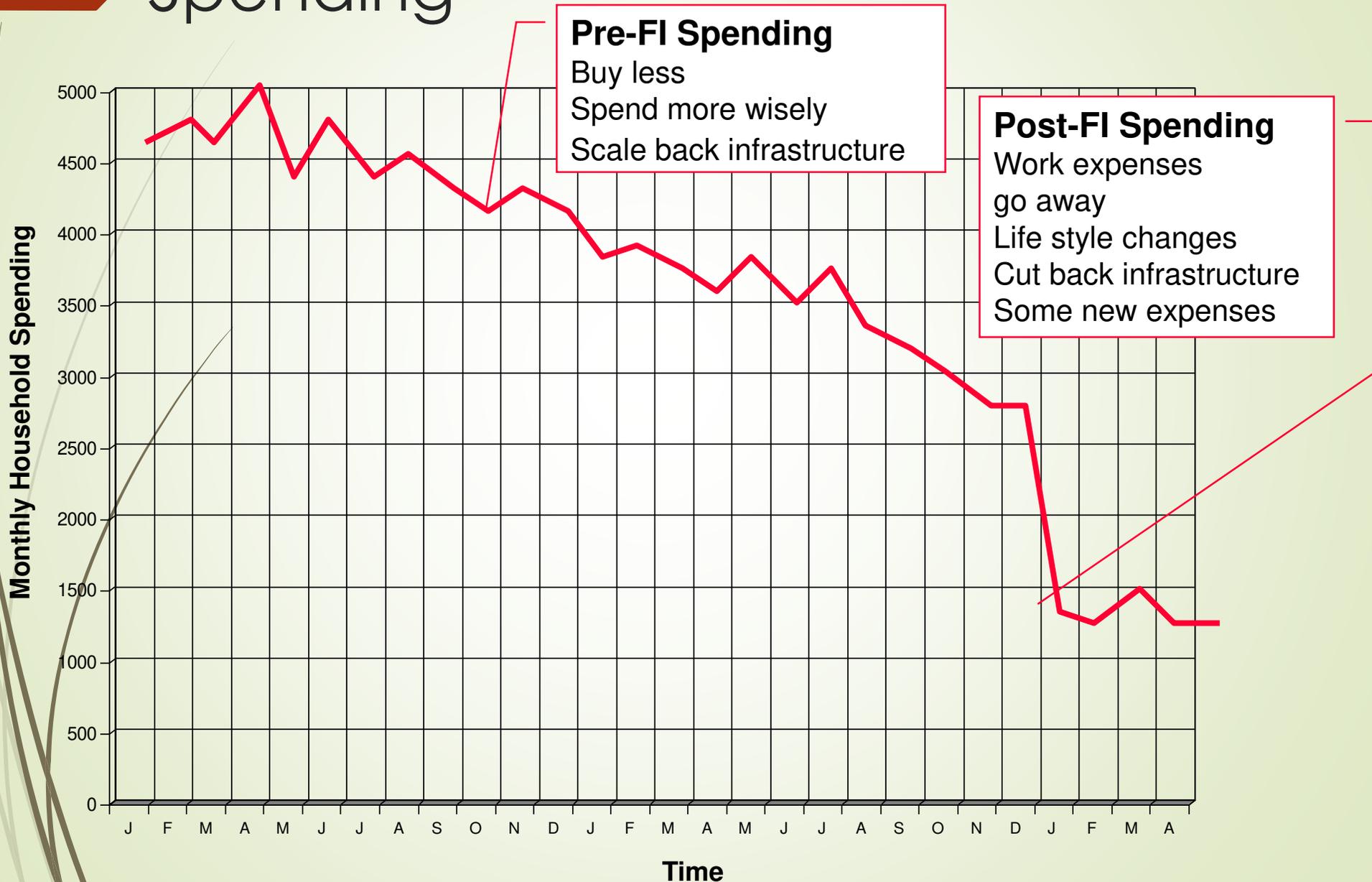
* adopted from "Your Money or Your Life"



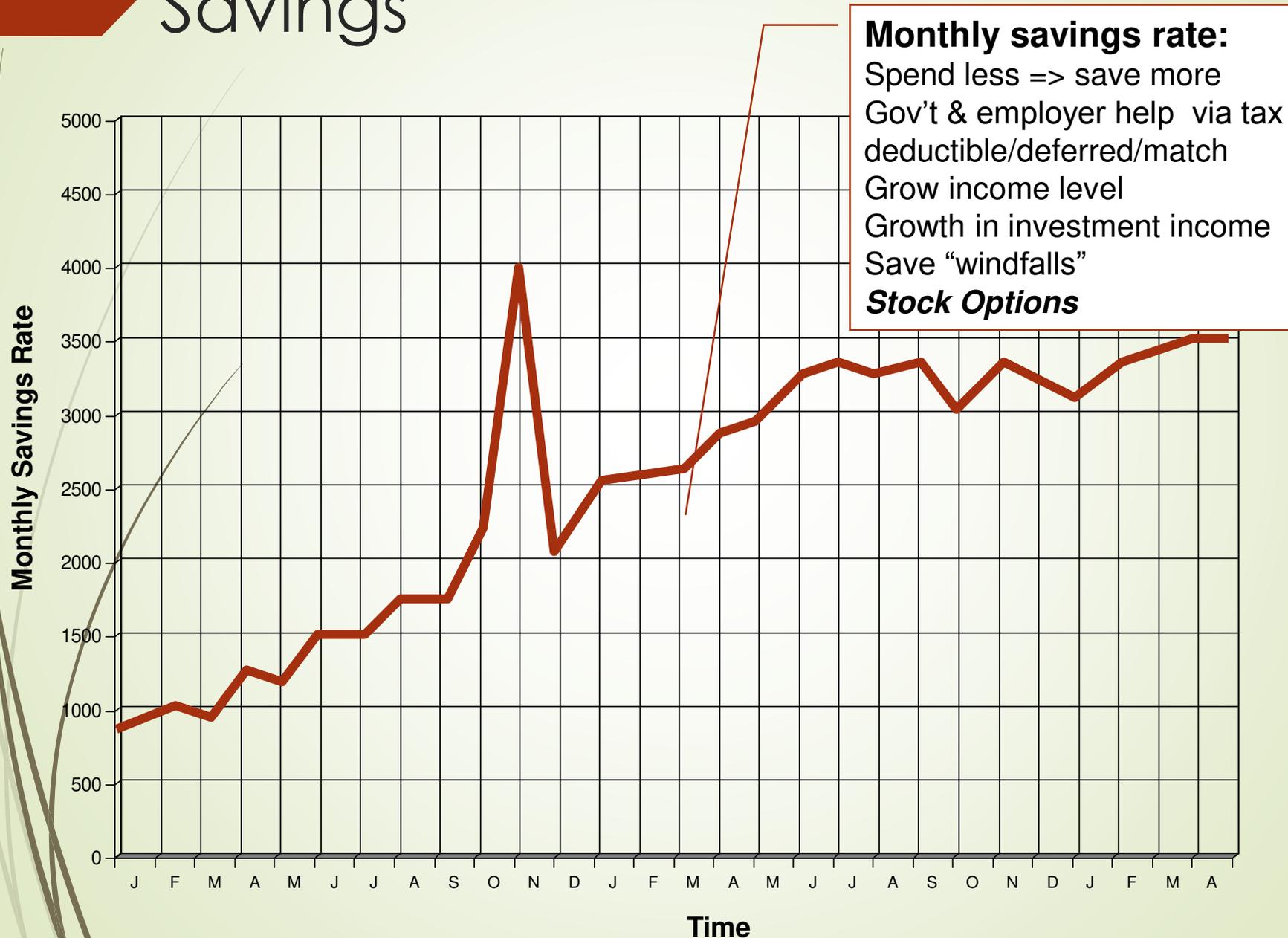
Levers for Reaching Financial Independence

1. Spending
 2. Saving
 3. Investing
- 

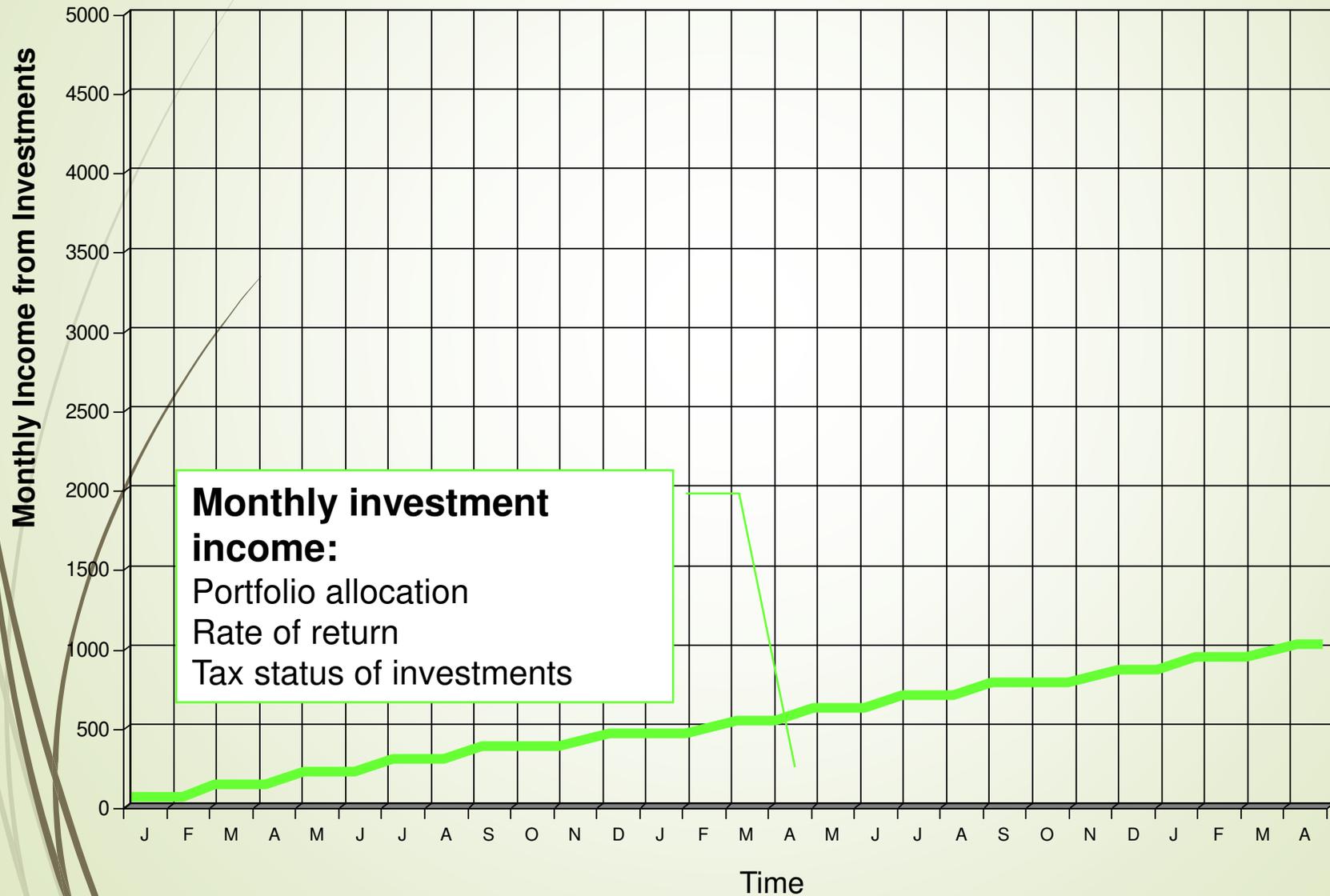
Understanding your Levers: Spending



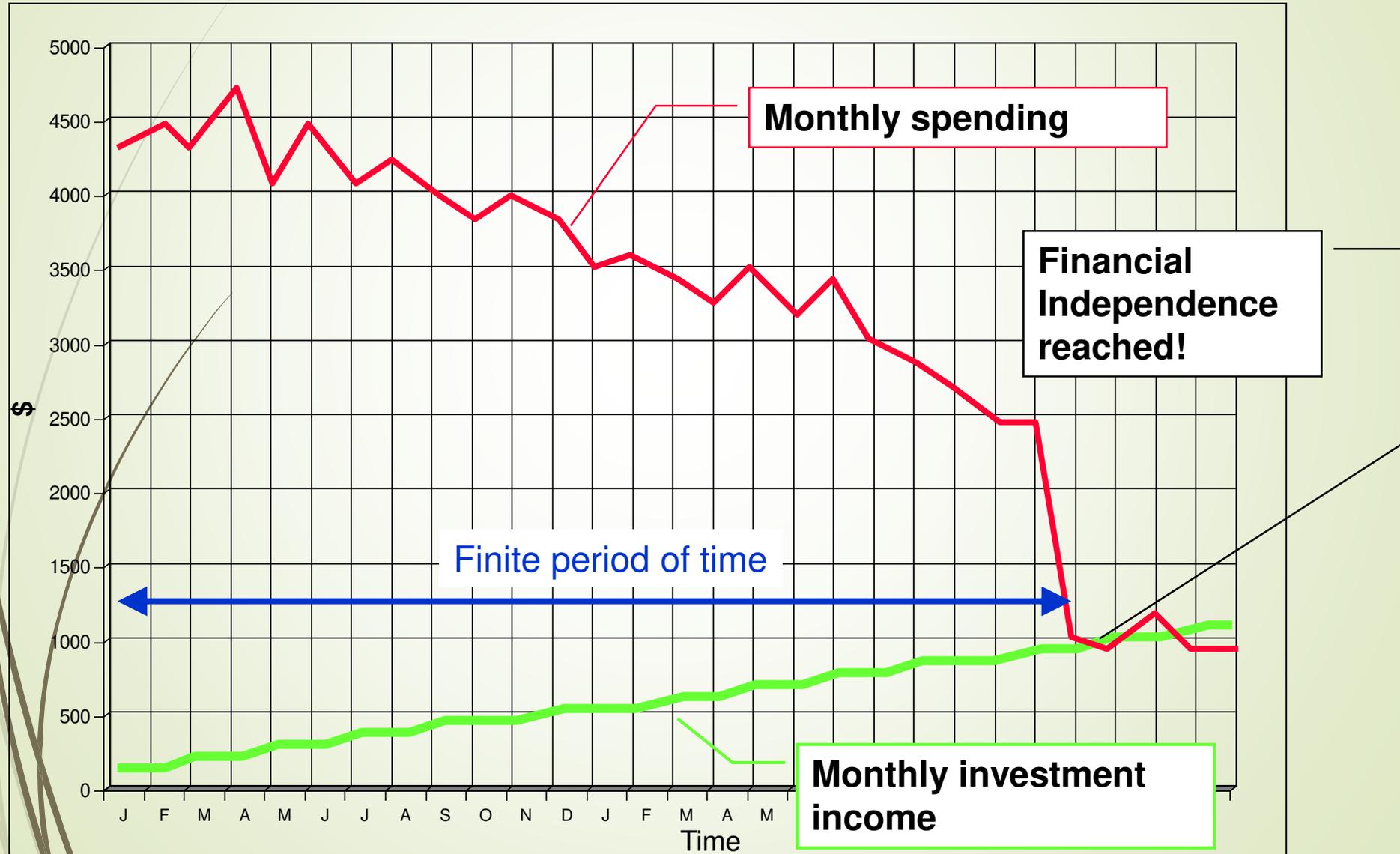
Understanding your Levers: Savings



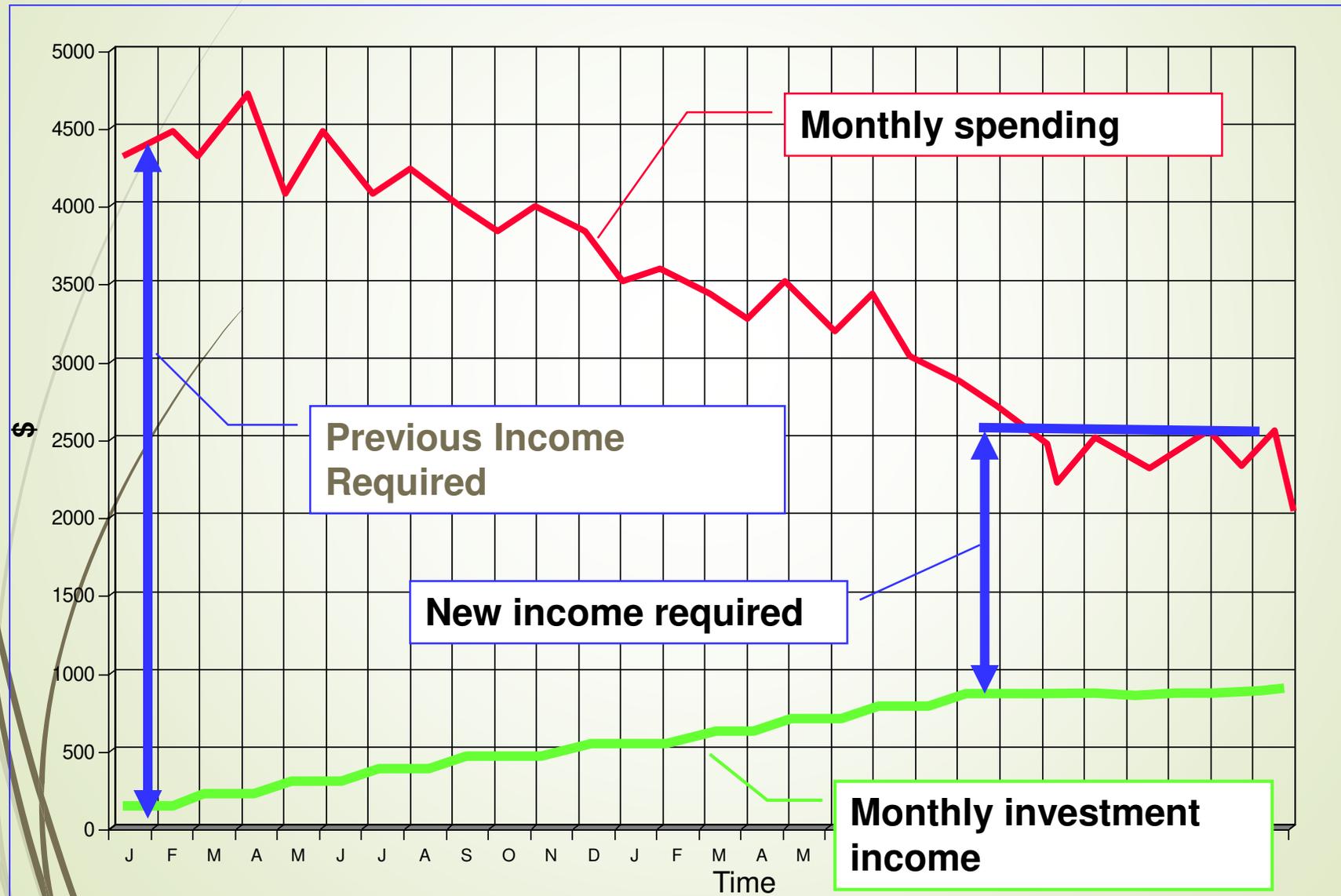
Understanding your Levers: Investment



Putting it Together: Full Financial Independence



Putting it Together: Partial Financial Independence

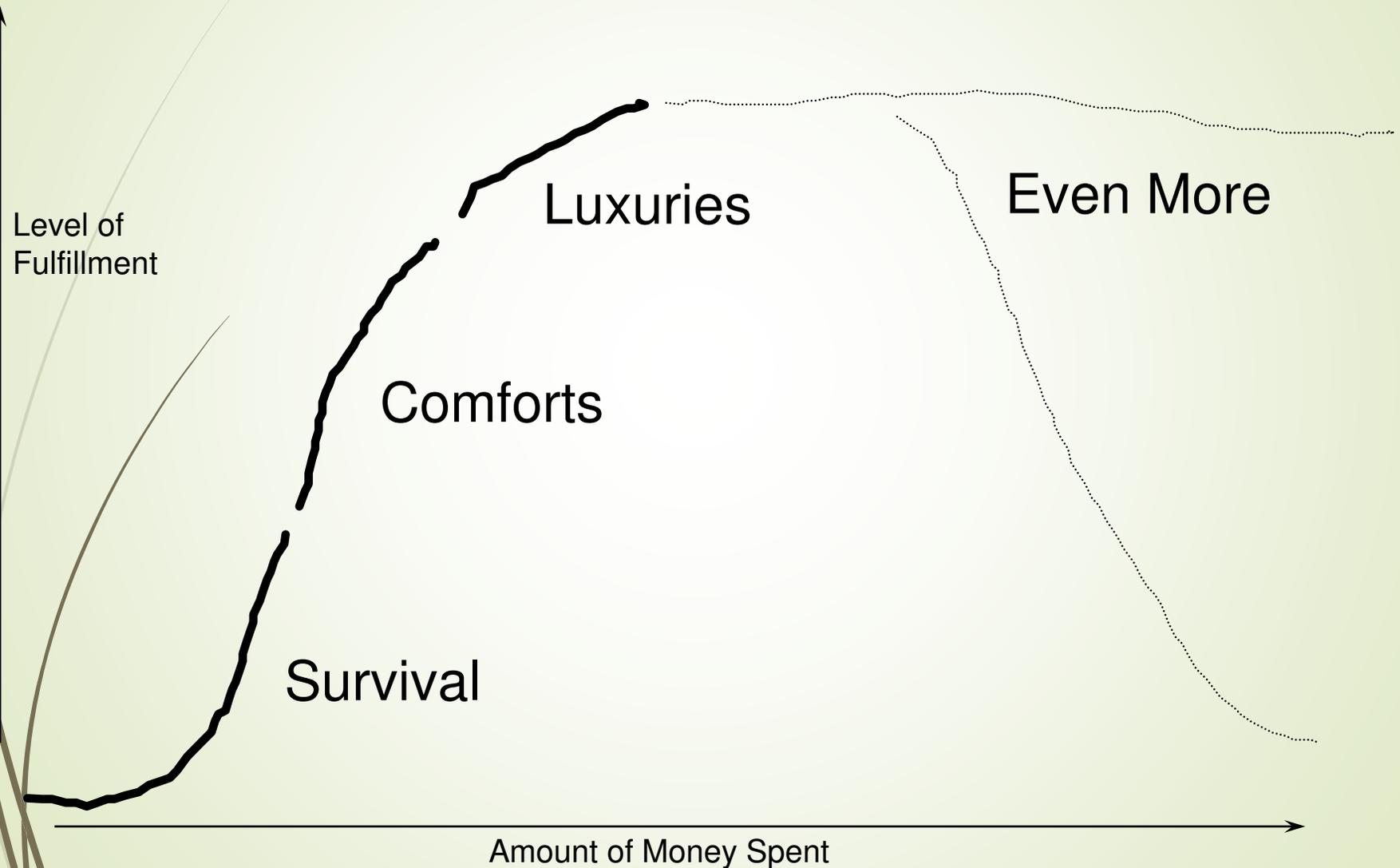




How much will I need???

- ▶ Take a guess on the income from investments you will need after retirement, say \$50,000/year
- ▶ Rough ballpark: Multiply that number by 15 (more risky) to 25 (more certain, but need to save more):
 - ▶ $x15 = \$750,000$
 - ▶ $x25 = \$1,250,000$
- ▶ You will be mostly living off income, not drawing down capital, so it is mostly age-independent. The younger you are, the higher multiple you should use.
- ▶ Use online tools to more closely model your actual situation

The Concept of “Enough”



* Adapted from “Your Money or Your Life”

Re-thinking Infrastructure

- Infrastructure: house, cars, boat, vacation home, plane, other expensive “toys”
- Most spending goes towards infrastructure:
 - Purchase price, insurance, upkeep, repair, taxes, operating costs.....
- Infrastructure reduction is the highest leverage tool for reaching FI, since it both reduces spending and increases liquid assets
- Your infrastructure needs will change post-FI
 - House: not around much (traveling), entertaining more
 - Car: no commuting, may take long trips
 - Vacation home: not constrained to “weekend get-aways”



Re-Frame How You Think About Spending Money

- ▶ Buy only those things which are worth more to you than the life hours you spend earning money to acquire them
- ▶ Every ~\$20 dollars you save buys you a \$1 income stream for the rest of your life (approximately)
- ▶ There is no “right” answer – the mix of spending & saving depends on what’s important to you
- ▶ The key is that the choices you are making should be explicit

“They deem me mad because I will not sell my days for gold. I deem them mad because they think my days have a price”

-- Kahil Gibran



Stumbling block: What if you have kids?

Why FI is More Difficult

- Additional expenses to consider:
 - day-to-day living expenses
 - college education
- Lifestyle you'd like to provide for your children
- Role model considerations
- Limits choice of FI activities
 - Running off to join the Peace Corps is less of an option...

On the Other Hand

- The greatest gift you can give your children is yourself and your time
- College: junior college, state college, loans, scholarships
- Role model: "Having a life", fulfilling one's life mission
- Would kids learn more from a year traveling the world with you than they would in school?

Stumbling Block: Health Insurance (in the US)

- Until Obamacare, this was a major problem
 - Very expensive for individuals to purchase
 - Unavailable for those with pre-existing conditions
- Obamacare will make things easier
 - More competitive markets->lower rates for individual purchasers
 - Same price regardless of pre-existing conditions
 - Premium support for lower-income households
- Still going to be a major expense for early retirees – build it into your plan

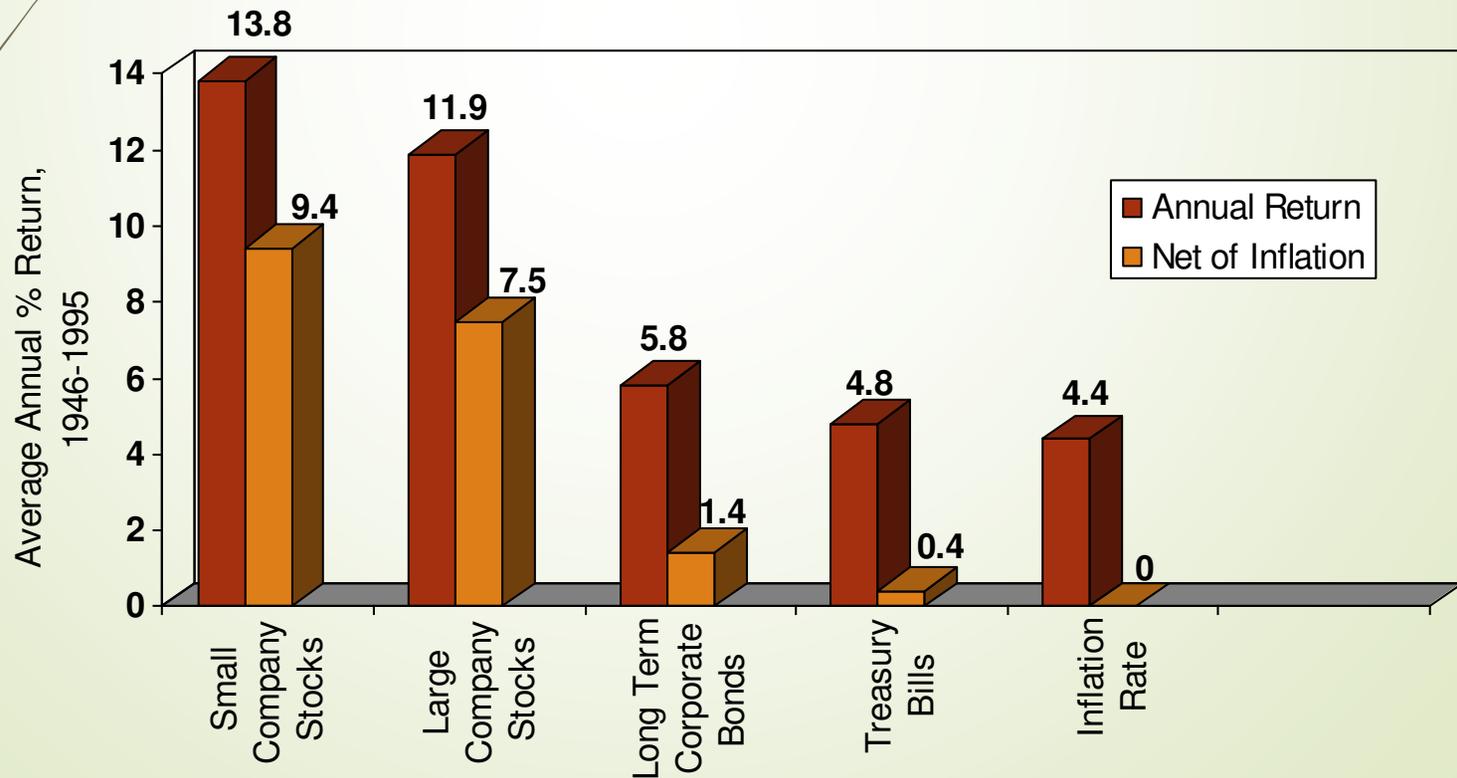


Investing what you've saved

- Investing is actively managing the money you've saved in order to make more money
 - The power of compound returns over time is the greatest lever you have
 - “Investing” is an enormous topic – here are the highlights
- 

Different Asset Classes Provide Different Average Returns

- Each class of investments (large cap stocks, small cap stocks, US Treasury Bonds, etc.) has over time a relatively constant rate of inflation-adjusted return
- The higher the return, the greater the volatility in any given year. *Knowing your level of risk tolerance is critical*

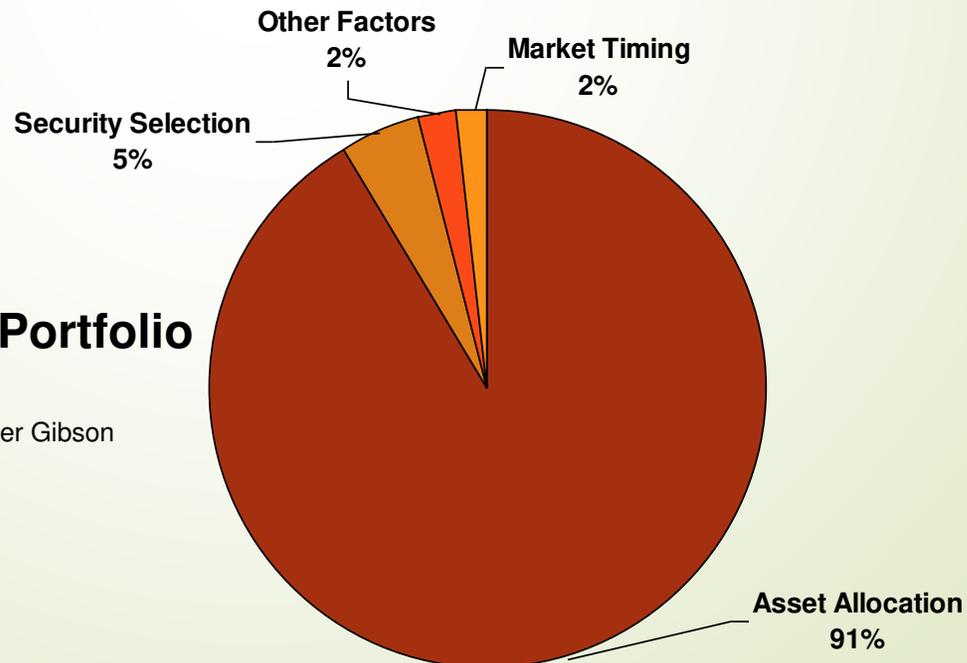


Portfolio Planning is your strongest investment tool

- ▶ **Portfolio planning:** A mixture of investment classes will, on average, produce a better risk-adjusted return than a single class of investments that yields *that same return*
- ▶ Standard financial planning tools will help build a portfolio mix that maximizes return for a certain level of risk and specific time horizon

Determinants of Portfolio Performance

source: Asset Allocation, by Roger Gibson





Maximize Tax Deferred Savings

- 401k, IRA, Keogh, SEP, Roth IRA
- Consider non-deductible IRA contributions (earnings accumulate tax-free)
- You can withdraw early without penalty:
 - IRAs – take as annuity based on your life expectancy, till age 59.5 or 5 years (whichever is longer)
 - Roth IRA - withdraw principal without penalty after 5 years



Variables to Change If the Numbers Don't Work Out

- ▶ Save more money
- ▶ Invest in a more aggressive portfolio
- ▶ Decide to spend less during “FI”
- ▶ Work part-time for a while
- ▶ Wait another year or two before you stop working
- ▶ Sell more assets
- ▶ Spend a couple years in a “no expense” situation after you stop working, to allow your investments to grow some more
- ▶ Find a way to earn more money now
- ▶ Buy one lottery ticket a week
- ▶ Decide not to leave an inheritance
- ▶ Plan to to work again after some number of years



Action Steps: Building Your FI Plan

- ▶ Learn the basics about investments
- ▶ Spend in alignment with your FI goals; get out of debt; stop buying gazingus
- ▶ Track your spending and saving rates
- ▶ Get your financial/legal house in order (will, life insurance, health care proxy)
- ▶ Get clear on your “relationship with money” if necessary
- ▶ Understand your current net worth, and do portfolio allocation of your assets
- ▶ Make maximum use of all tax-deferred plans possible
- ▶ Set up an automatic savings plan & increase your savings amount
- ▶ Increase your savings by raises, windfalls, etc.
- ▶ Check social security benefits: on the form, say you expect \$0 future earnings
- ▶ Put together a system to track your spending & investment progress
 - ▶ Quicken is great for tracking expenses and investments
 - ▶ Quicken Financial Planner is great building your FI plan
- ▶ If you're really serious about reaching FI, consult with a financial planner
 - ▶ Even if its only to confirm your calculations
 - ▶ Do your homework before selecting one
 - ▶ Fee-based and commission-based
 - ▶ Various certifications



Building an FI Plan of Your Own

- Do the arithmetic
- ↓ Do some soul searching
- Do what you want



Decide Where Work Fits in Your Life

- ▶ **Two year test:** If you found you had two years to live, what would you change about how you spend your time?
- ▶ **Is your life whole?** Do all the pieces - your job, your expenditures, your relations, your values - fit together?
- ▶ **What roles does work play in your life?** Contribution to society, intellectual challenge, community, prestige, learn new things, ...
- ▶ **Based on the above, you may choose to:**
 - ▶ Stop working entirely
 - ▶ Work part-time
 - ▶ Take a sabbatical
 - ▶ Work at a job that doesn't provide pay
 - ▶ Keep doing exactly what you are doing now
- ▶ **The right answer for you will probably change over time**



Part Time Work



- ▶ New patterns in the economy are making this more feasible
- ▶ Not every job has part-time potential
 - ▶ Instead, think of yourself as a bundle of skills (including those you are not currently using) – who might need those skills part-time?
- ▶ Lots of different part-time patterns are available
 - ▶ Employee, free-lancer, contracting agencies, etc.
 - ▶ Fixed hours vs. variable; number of days per week; work location; etc.
- ▶ Easiest ways to get started:
 - ▶ Being indispensable at your current employer
 - ▶ Free-lance work with past employers and acquaintances
 - ▶ Contracting agencies
- ▶ Having a “pot of money” set aside for getting started and stabilized removes a lot of worrying



Typical “Early Retirement” Pattern

- ▶ **Doing:** sleep in late, travel, get caught up on everything I'm behind on, visit the friends I never have time to see, spend more time on sport/hobby, learn a new sport, exercise more....
- ▶ **Growing:** You know, I've always really wanted to (get involved with helping disabled children; play saxophone in night clubs; hike the Appalachian trail; live in a warm climate)
- ▶ **Giving:** Here are the things that are important to me and that bring me joy. Here is what I'm passionate about. Here is what I have to contribute. Here is how I want to construct my life.



Start towards your life goals long before you retire

- ▶ Long term happiness is built on elements constructed during your 30s, 40s, 50s*:
 - ▶ **Excellent health.** Building blocks: exercise, weight, stress management, diet, preventative care
 - ▶ **Family:** Building blocks: spending time with children, extending the family unit broadly, value differences, improve your relationship with your partner
 - ▶ **Friends:** Making younger friends, learning how to make friends, starting early
 - ▶ **Loving Life, not Money**
- ▶ ***Don't underestimate the power of life's ruts when making your plans***

From "Get a Life: You Don't Need a Million to Retire Well":



Consciously planning how to spend your life

- Start building your life-map now
- Keep adding to it -- more branches, more details
- Start acting on as many of them as you can
- Collect and save articles & ideas as you come across them
- Practice: Plan/visualize a typical day, week, year
- Don't over-plan! The answer that's right for you will emerge

Categories that Might be in your plan

- Hobbies
- Volunteering
- Extended family
- Physical health & well being
- Spiritual
- Personal growth & learning
- Travel
- New skills
- "Things I was always curious to know more about"



Ten Clues to Your Life Purpose*

- ▶ What do you love to do when you have spare time?
- ▶ What parts of your present job or life activities do you thoroughly enjoy?
- ▶ What do you do naturally well?
- ▶ What have been your 10 greatest successes to date (in your eyes)?
- ▶ Is there a cause, value, or quality that you feel passionate about?
- ▶ What are the 10 most important lessons you have learned in life?
- ▶ Are there some issues or perceived problems that have occurred over and over again in your life?
- ▶ What do you daydream about doing?
- ▶ What would you like to be remembered for?
- ▶ What would you do if you knew you could not fail?



Some help in building your tree

Live the Life You Love

Barbara Sher, Delacorte Press, 1996

Thriving in Transition: Effective Living in Times of Change

Marcia Perkins-Reed, Touchstone, 1996

What Color is Your Parachute?

Richard Bolles, Ten Speed Press, 1991



Building an FI Plan of Your Own

- Do the arithmetic
 - Do some soul searching
 - ↓ Do what you want
- 

Mental Hurdles to Overcome

- **Ultimate worst case scenario:** What if I need to pay for my parent's nursing home care and the stock market crashes and my house burns down and my husband becomes disabled and...
- **Puritan work ethic** – I'm shirking my responsibility if I'm not working
- **Answering "What do you do?"** – What happens to your "role" in society if you aren't in a prestigious job?
- **Not worthy enough** - Do I really deserve this?
- **"No salary" phobia** - I've had money coming in my whole adult life....
- **Procrastination** – I'll wait just a couple more years and save some more money
- **The real risk:** *What if you live your life without doing what you truly love and without providing what you uniquely have to contribute?*



Who else has expectations for you?

- Your parents
 - Your friends
 - Your boss
 - “Society”
 - Your spouse
 - Your children
 - Your church/synagogue/etc
 - Your “little voices from your past”

 - _____
 - _____
- **Consider how much you need to take into account their wishes.**
 - Some should have a big say (spouse)
 - Some probably should be completely ignored



Permission Slip

This certificate grants _____ permission to do what he/she wants, upon completion of doing his/her arithmetic and his/her soul searching, notwithstanding alternative viewpoints of society, friends, boss, etc..



Sticking with it

- ▶ Make it real
 - ▶ Always be building and improving your plan
 - ▶ Live as much of it as you can today
 - ▶ Do trial runs if you can
- ▶ Measure your progress
- ▶ Read books from the references list
- ▶ Tell people about your plans
- ▶ Talk with people who have reached FI
- ▶ Plan it with others and help each other
- ▶ Change & evolve the plan
- ▶ Roll with the punches; adapt your plan where necessary
- ▶ If you know where you're headed and allow yourself to stay open to opportunity, you'll be amazed at how much "luck" you have in furthering your plan



Examples: How We Made It Real

- ▶ Dream: Spend a couple years traveling the country in an RV
 - ▶ Have gone twice to RV Expo at Bayside Convention Center
 - ▶ Read two books, e.g.. “Full Time Rving”
 - ▶ Talked to friends who spend part of the year in an RV
 - ▶ Subscribe to a free RV newsletter
 - ▶ Plans to rent an RV for a week this summer
 - ▶ Built a big file on RVs - companies, sources, etc.



Examples: How We Made It Real

- ▶ Dream: Combine travel to adventurous places with volunteer work of some sort
 - ▶ Peace Corps
 - ▶ Went to recruiting session in Boston
 - ▶ Subscribed to newsletter for Peace Corps returned volunteers
 - ▶ Read books by Peace Corps volunteers
 - ▶ Other third world volunteer work
 - ▶ Got several books on other volunteer programs
 - ▶ Surfed the web
 - ▶ Talked with people who have done it
 - ▶ Started doing volunteer work for Earthwatch (places volunteers on scientific expeditions around the world)
 - ▶ Tore out articles and recruitment ads & started a file



It's Up to You

“People are always blaming circumstances. I don't believe in circumstances. The people that get on in this world are the people who go out and find the circumstances they want, and if they can't find them, then they make them”

- George Bernard Shaw



About the speaker.....

Kathy Hornbach is currently "on sabbatical" (and intends to remain there, at least part-time), having left the corporate world in 1996. For the next two years, she did freelance consulting in her specialty area of high-tech strategy and scenario-based planning. Then she joined a small company that let her retain her 1/2 time status and job flexibility. She also gardens, dives, volunteers, goes fishing, visits friends and family, pet-sits, bicycles, and is even finally cleaning the basement. Her current, very wonderful and flexible employer is NerveWire, an Internet B-to-B start-up, where she is a strategist. Before her decision to "have a life", Kathy was at Digital Equipment in the Business Strategy Group, providing staff support to Digital's senior management team. Prior to that, she managed a product marketing group for Digital's CASE product line. Before joining Digital, she managed an engineering group for an aerospace electronics company. She holds an Honours B. Math, computer science major, from the University of Waterloo, Ontario, Canada.

Kathy does occasional presentations on how she and her partner have built their plans to "have a life", usually at the prompting of envious friends who would like to follow a similar path. Feel free to contact Kathy at ~~hornbach@world.std.com~~ or ~~978-392-8892~~ if there is a venue that you'd like to request she present at.