USE SEPARATE ACCOUNTS FOR EACH MAJOR GOAL

SAVING AND INVESTING: LIFETIME JOURNEY WITH THREE MAIN PEAKS TO CLIMB

By David Gould, *Staff Editor*

Professionals in the field of personal finance give considerable thought to the psychology of saving and investing. They meet people who spend wildly and others who hoard cash while subsisting on basics. Certainly, out-of-control spenders outnumber the penny-pinchers—meanwhile there's a multitude in between. We're talking about higher-income people who make an effort to manage their finances but wonder if they're truly on track to do it successfully—especially as measured by a particular trio of goals.

"Managing finances is a lifelong process usually subdivided into three stages," says Matt Luckey, of the WealthWave financial advisory firm. "You build up wealth to buy your first house, then again for your children's education and once more for retirement. That's three separate challenges," he says, "and very often they don't all work out equally well. So, making adjustments becomes important."

Study the three peaks in this journey and you'll notice distinct differences in what the saved-up money is going toward. The classic first push to build wealth—so you can make a down payment on a house—will conclude in a straight switch of one hard asset for another hard asset. Cash in the bank (or stock in a portfolio) gets exchanged for real estate. Both those things have enduring and even appreciating value.

Your college fund is the second big push to build wealth and then disburse it. Once again it's an asset-for-asset trade, although here the value of the surviving asset, the college degree, isn't liquid and doesn't properly belong to you, it belongs to your daughter or son.

The third and final instance in which accumulated wealth gets deployed for a major life event is retirement. It's the only one of the three in which the funds you set aside and allow to grow get spent—very slowly over time—on perishable goods and services. Retirement money could conceivably be used to acquire an enduring asset, though rarely will that happen.

Recognizing these differences helps us understand why a person's mindset and attitude could differ at each stage. There are certainly psychological quirks to the process, given that climbing the three peaks requires you to give up pleasures you might enjoy today in exchange for the reassurance that important future needs are provided for.

Possibly you did a great job saving for that first house, then a decent job saving for kids' tuition, but you're a ways behind in setting yourself up for retirement. If so, it may be because home ownership and all the self-expression that goes with it is a

How Virtual Reality Brings Retirement Planning into Focus

In Oscar Wilde's "The Picture of Dorian Gray," a face in a portrait undergoes an eerie aging process while it hangs untouched on a gallery wall. With help from Stanford University's department of virtual reality technology, the Merrill Lynch investment division of Bank of America does something similar for clients. Those who opt into a VR program called "Face Retirement" have, according to a bank study, been saving more money for their post-work years because they're interacting with what are called "age-progressed renderings" that put them face to face with their "future self."

The aged version of the client's face becomes part of their online dashboard. When the client holds their hand beside their face and moves it, the hand in the mirror makes a matching movement—so it's all the more convincing.

To the extent that a customer delays gratification and puts funds away, the future self image becomes visibly happier. It all stems from a psychological study, also undertaken at Stanford, proving that immersive virtual reality hardware and "interactive decision aids" will lead people to become more future-oriented, thereby changing their behavior in a beneficial way. — *D.G.*

psychological sweet spot for you. Alternatively, you might have been highly motivated by the fact that residential real estate is known to rise in value, sometimes dramatically. Did your parents work extra hard to put you through college, postponing their personal gratification until you had your bachelor's degree? If so, that example may have triggered in you a pay-it-forward vow to replicate their parental responsibility.

Retirement, in many ways, is much harder than the family home or a child's college education to embrace. That's because, of the three peaks, it's the farthest away in time and all the more so because it's a hazy concept to define and visualize.

"Retirement and the everyday experience of it is a foreign concept to most people," says Luckey. "When I became an advisor and started setting up financial plans, that's what struck me the most—how unclear people are in their heads about what retirement is going to be like." As a result, he says, people who do well climbing the two earlier peaks often have trouble establishing anything more than "loosely defined goals" for wealth accumulation to support post-employment living.

Among advisors at WealthWave it is standard practice to encourage the use of separate accounts for these three major goals, with the further proviso that clients avoid "raiding" one to supplement another. "It's been well proven that people are better at saving when they know what each of their accounts is for," says Luckey. "Something like 'money for the future' is too vague a reason to make significant sacrifices."

Along with following a three-account road map, Luckey's clients also take his advice to create a "two-bucket format" for their retirement funds. "One bucket is your guaranteed money that covers everyday existence at a reasonable standard of living," he explains, "and the other is discretionary money, available so you can travel or spoil your grandkids or do other non-essential things." Balancing between the two is important. "If you haven't legitimately satisfied basic monthly spending needs, you'll end up anxious and edgy," he says, "even if there is quite a large amount in the discretionary bucket."

When financial preparation for buying a starter home isn't optimal, you typically buy a smaller house. When the college fund doesn't reach its goals, the student takes loans and campus jobs and perhaps attends a state school instead of the private college they were aiming for. "When retirement plans come up short," says Luckey, "people keep working or they downsize their home, and the ones who had ambitious plans have to kind of shrink their dreams."

The phrase "planning for retirement" sounds to most ears like a strictly financial activity—sacrifice, save, invest, build the nest egg. In fact, we should all take the phrase literally now and then. In other words, we should plan what we would do with our time, where our enjoyment would come from, what new skills we may want to learn and what we may feel called upon to do by way of "giving back." If and when our picture of life after work gets some true definition, we may find it easier to save up—that one last time—to make the picture a reality.

For more information or to schedule a time to review your retirement game plan, contact Matt Luckey at 770-418-0300 x122 or visit wealthwave.com/mattluckey. PG

The Takeaway:

- When you begin your career and start putting away money, it's best to set up three accounts, one each for a home, your children's education and retirement.
- Don't assume that doing a good job climbing the first one or two peaks translates automatically into successful nest-egg-building for retirement.
- Being financially ready for retirement is at least somewhat based on planning in some detail the life you hope and expect to lead after you finish working.
- Think in terms of "two-bucket finances" once retirement begins—the first is day-in, day-out necessities, the second is discretionary.