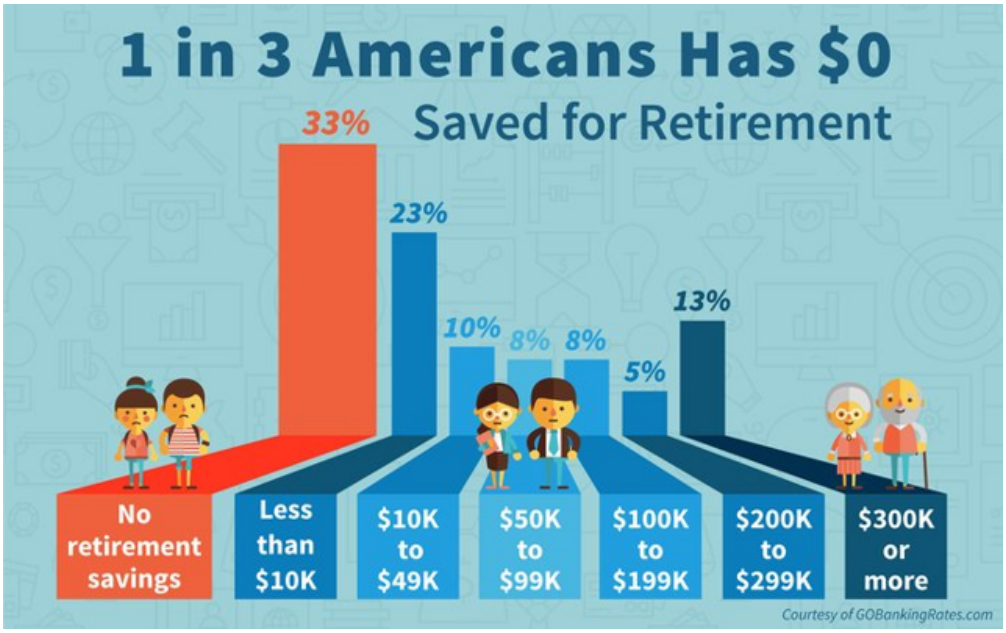
NEW MEMBER BUSINESS GUIDE

THE RETIREMENT PUZZLE: HOW INSTRUCTORS CAN PUT IT TOGETHER SUCCESSFULLY

By David Gould, *Staff Editor*



Even if you love your work, it's natural to think about quitting at some point to enjoy the contented life of a retiree. Our word "retire" comes from a French root that means, "withdraw to a place of safety or seclusion." Most people these days would prefer to include some adventure in their post-work experience, but the "safety" aspect is still meaningful. We do what we can during prime earning years to ensure a safe, secure flow of income to live on.

Research conducted by Proponent Group in 2017 showed something interesting about a dedicated golf coach's working life. Over the first 10 years of Proponent Group's existence, 1,230 different instructors have been members—about 570 of whom were no longer on the rolls, when the research was done.

"Among those hundreds who have dropped off over the years," says company president Lorin Anderson, "I can think of three who fully retired from teaching. One had to care for his very ill wife, another was quite sick himself and actually died six months after retiring, and then there's Charlie Sorrell—Charlie hung it up, sold his property in Atlanta and went on a permanent RV tour with his wife."

Offering an overview of the retirement prospects for a typical Proponent member, the veteran financial consultant Matt Luckey of Wealthwave offered some positive guidance. Noting that a Proponent member is generally out-earning his or her peers in the teaching profession by quite a bit, Luckey pointed to the average annual revenue for a member, in 2017, of $134,000. His company, Wealthwave, had recently published a special report on the actual monetary cost of the lifestyle we've come to think of as the American Dream. The report attempted to quantify the true cost of living that desirable existence for a family of four.

The Wealthwave report referred to some research by USA Today seeking to tally up the average costs of home ownership, utilities, groceries, transportation, health care, leisure, taxes, education, and retirement savings. Eyebrows were raised in many quarters when it found that the average cost of the American Dream for a family of four was $130,000. And if you exclude the top 1% of American households, the average household income in America is $43,713. That's far shy of $130,000.

Luckey made note that the average revenue per Proponent member is triple that of the average household income for 99 percent of America. The downside for those in this situation is finding it too easy to spend cash and live the lifestyle they've earned with little thought about saving for the future. The best news, he asserted is that steady income-earning superiority does provide the opportunity to meet all challenges. So, when you make the income needed to both support a family and live a comfortable lifestyle, you also gain the wherewithal to make smart financial choices—choices that are not based on fear but that come from a position of strength—to help plan for your family's financial future.

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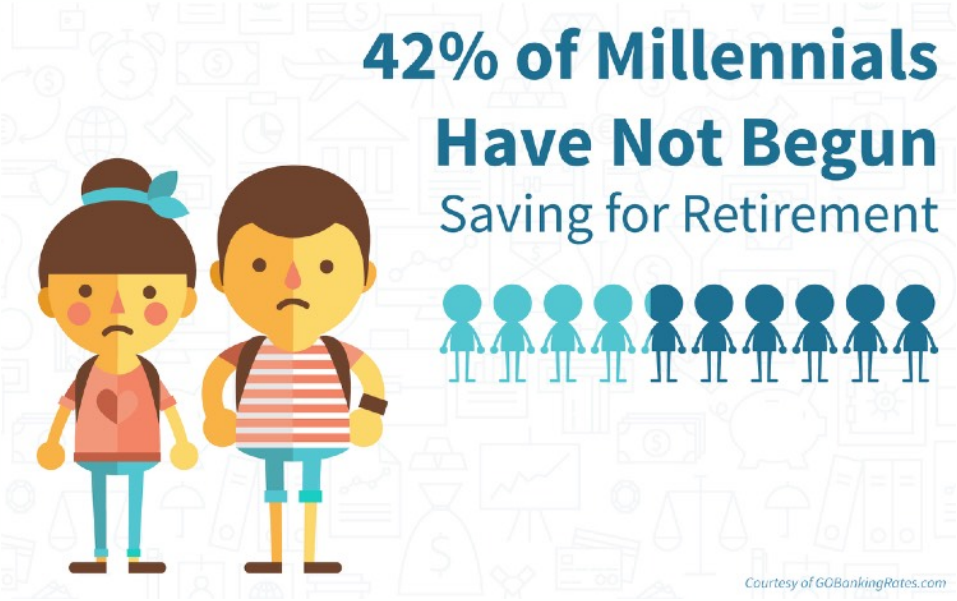
Motivation to Save Starts the Ball Rolling



We're taught as children to brush our teeth so we can guarantee ourselves a healthy smile throughout our lifetimes. That lesson must be well-taught, because virtually every American does brush, morning and night, every single day. We're also taught as children to be careful with money and set some of it aside for the future. Now, as it turns out, brushing your teeth is rather enjoyable, down to the minty taste. Putting money aside is a trickier thing.

Mike Coady, an expert on financial planners and how they communicate with clients, believes the saving habit is so difficult for people to cultivate that planners have to learn to create psychological profiles of clients, at the outset. The point of the profiling is to determine what motivational tactic will work. Is the client someone who could develop whether the virtuous, self-congratulatory feeling of using good sense and curbing their desire to spend, or, are they the type who could truly experience the fear and dread of impoverishment late in life that is caused by failure to save and invest.

The noted Stanford University economist and virtual-reality pioneer, Jeremy Bailenson, worked with Bank of America to create a VR program designed to cut through the denials and rationalizations that keep people in cultures like the US and UK from spending less than they earn. A tracking study has shown that clients who opt into a virtual reality program called "Face Retirement" are saving more for retirement, because they're interacting with what are called "age-progressed renderings" that put them face to face with their "future self." The aged version becomes part of their online dashboard. "When the person moves their hand, their mirror image makes a matching movement—so it's convincing," says Bailenson.

"To the extent this customer delays gratification and puts funds away, the 'future self' image becomes visibly happier." A team he was part of at Stanford ran experiments in 2011 proving that through the use of immersive virtual reality hardware and interactive decision aids, people "can become more future-oriented, and change behavior in a beneficial way."

The Rule of 72

Clearly, it also helps to understand the math of saving, borrowing, investing and risk-tolerance. Consider the question of whether you would rather have a million dollars today or a penny that doubles every day for a month? Most people would take the million dollars and run to the bank. That's one of the reasons most people aren't properly prepared for retirement. Investors who understand the power of compound interest might take a few moments to do the math.

By day 25, you might think taking the penny was the wrong decision. But just six days later, the penny would have grown to over $10 million. That's the power of compound interest.

Einstein considered compound interest to be the Eighth Wonder of the World. He also said that when you invest, it works for you and when you borrow, it works against you. Harnessing this simple concept can make the difference in shrinking your retirement lifestyle to meet your budget or living the retirement of your dreams. So let's take a closer look at the power of compound interest and a simple tool you can use to make better financial decisions.

To figure out how often money doubles at a particular interest rate or rate of return, simply divide the number 72 by the interest rate. The result is the number of years it takes for your money to double. So if you have an investment that earns 4% annually, dividing 72 by 4 tells us your money will double every 18 years. If you have a credit card that charges 8% interest, your debt will double every 9 years.

Let's apply this to a real-world scenario. Suppose a 29-year-old golf instructor saves $10,000. If she earned a 4 percent return every year, her money would double every 18 years (72/4=18). When she retires at age 65, the $10,000 would have doubled twice and grown to $40,000. What if she were able to double her rate of return? How much would she have at age 65? Most people would somewhat logically think that if you double your rate of return you double the money. Wrong. Since money doubles every 9 years at 8% (72/8=9), she'd get 4 doubles

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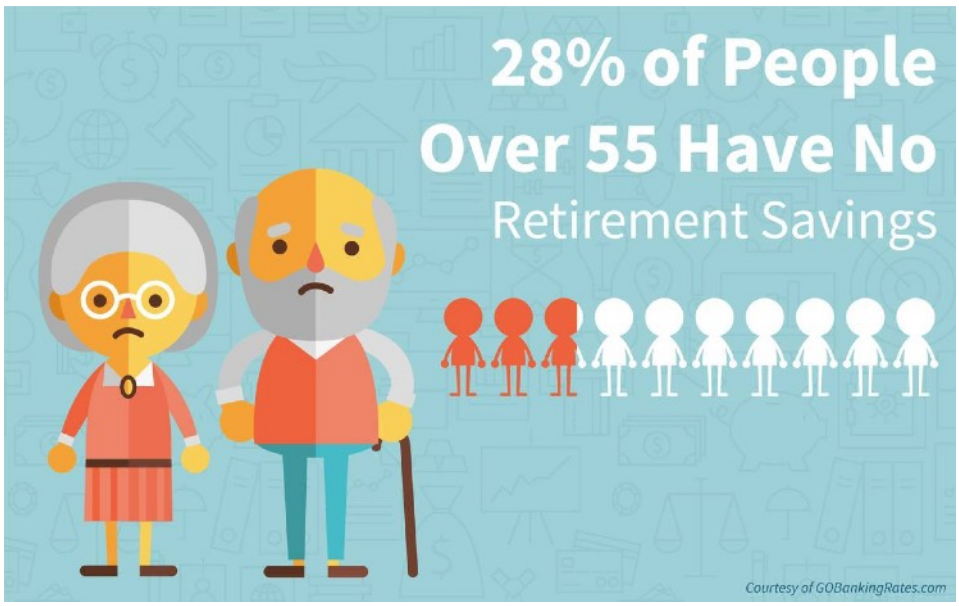
by the time she reaches age 65. So that same $10,000 would grow to $160,000. Notice that doubling the rate of return leads to four times as much money.

Simply understanding the Rule of 72 can change the way you think about money. But in order to harness the power of compound interest, you need to consider issues like the effect of taxes. However the more important ancillary consideration is the risk of loss. If the 29-year-old in our example realized that she needed to seek a higher rate of return, she might put that $10,000 in a volatile investment. What would happen if her account lost 50 percent one year and then bounced back by earning 50 percent the next year?



Just as she may have intuitively thought that doubling the rate of return would simply double the value of her account, she might also imagine that losing 50 percent one year and making 50 percent the next year would leave her account value at even. in fact, one would have to earn a 100 percent return to recover from that 50 percent loss. This is the negative compounding effect of losses. So as important as it is to seek a higher rate of return, you have to be careful about how you go about it.

Untaxed Distributions in Retirement: The Long-Term Superiority of the Roth IRA

Individual Retirement Accounts ("IRAs") are invaluable tools for helping you prepare for retirement. Traditional IRAs were created in the 1970s and allow individuals to contribute money to an account that is earmarked for retirement. These accounts have two tax benefits: the money contributed to the account is tax-deductible in the year in which the contribution is made, which means that you pay slightly less money in taxes that year.

The much more important tax benefit is that the account grows tax-deferred so that gains in the account aren't taxed in the years during which you're saving for retirement. This allows the gains to stay in the account (instead of some of the gains being siphoned off to pay taxes), which allows the account to take advantage of the power of compound interest

To illustrate the importance of this tax deferral, let's use a hypothetical thought experiment we refer to as the million-dollar mistake.

How much money would you have if you started with a dollar and doubled it 20 times? Because of the power of compound interest, it would grow to $1,048,576. Now, how much money would you have if the same dollar doubled the same 20 times but you had to pay 30 percent tax on the gains each time it doubled? Many people would simply figure you'd have contributions and 30 percent less money, or $734,003.20. Since the tax is taken out each time the money doubles, the compounding effect isn't as powerful. The same dollar, doubled the same 20 times at a 30 percent tax rate, only grows to $40,642.31. A million dollar mistake, in other words. That's the importance of tax deferral.

So, the Traditional IRA allows you to save a little money in taxes in the years in which you make the money grows tax-deferred so you can avoid the million-dollar mistake and allow the power of compound interest to do its magic.

However, as with all government programs, the Traditional IRA has a catch: when you take withdrawals in retirement, the money is fully taxable at ordinary income rates. It's at that point that the 30 percent tax would turn $1,048,576 into $734,003.20, assuming you withdrew all the money at once. But if you spread out your distributions over your retirement (which is the entire point of IRAs), you only get taxed on the amount you withdraw every year and you may be in a lower tax bracket in retirement than you are in your higher-earning working years. But what will the tax brackets be in retirement?

As bad as taxes seem now, our current top federal tax bracket of 37 percent is considerably lower than it's been over most of the last 100 years. Given that we currently have significantly more national debt than at any time in our country's history, we think it's quite possible that tax brackets will be higher in the future. So not only does a Traditional IRA defer the tax – which still has to be paid on the growth of your account when you take withdrawals in retirement – it also defers the tax calculation since we don't know what taxes will be in the future.

What if there was a way to allow your retirement

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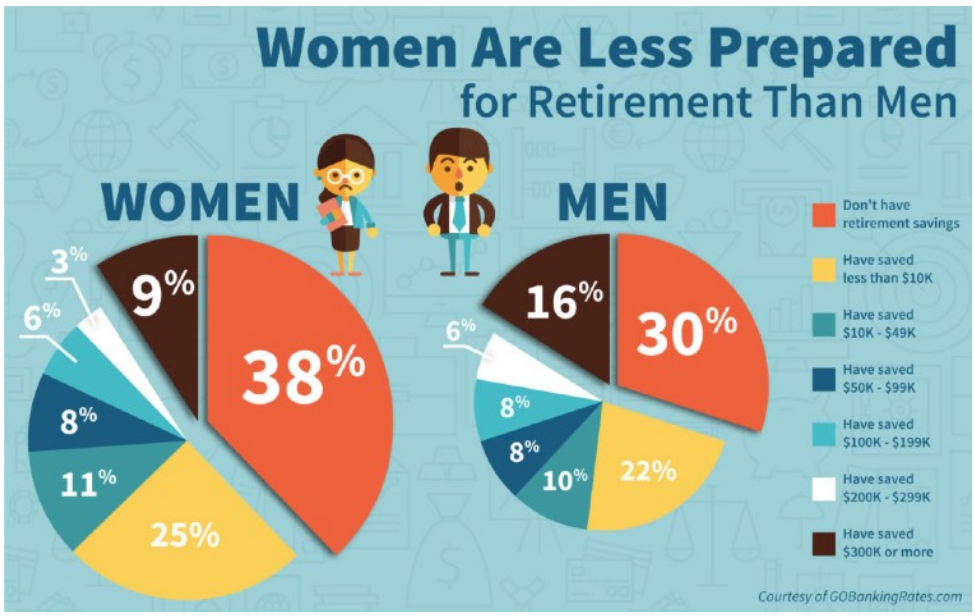

accounts to grow and compound without the effect of taxes and still be able to take out all of your money—including gains—without paying any taxes whatsoever? There is. In 1998, Congress created Roth IRAs, which are the mirror image of Traditional IRAs.

The catch with Roth IRAs is that—just like the farmer who chooses to pay taxes on the seeds—you forgo the privilege of deducting the contributions from your taxes. The money you contribute to the account is money on which you've already paid taxes (just like all of your other money—there's no additional tax when you contribute). So you do lose the benefit of slightly reducing your current tax burden, but in return for giving up current deductibility, the money compounds tax-deferred and, as long as you wait until age 59½, you're able to withdraw all of your money—including gains—without paying any taxes whatsoever. This ability to pay taxes on the seed money you contribute to the account and harvest all of your gains tax-free makes Roth IRAs the holy grail of retirement savings vehicles.

Everyone's situation is different. There are many cases in which it makes sense to contribute to a Traditional IRA instead of a Roth IRA. But on the whole, especially for those in their 50s or younger, Roth IRAs warrant significant consideration. There are also limitations to both forms of IRAs: You can only contribute $5,500 per year ($6,500 if you're over 50) and if you make a certain amount of money, you may not be eligible to deduct your Traditional IRA contribution and may not be able to contribute to a Roth IRA at all.

We use a little-known loophole that can sometimes allow us to skirt the limitation on contributing to a Roth IRA. There are also other products that can mimic the tax treatment of Roth IRAs for those who can't contribute or are interested in contributing more than the $5,500 annual limit.

How Do You Spend the Money You Retire On?

In recent years there's been criticism of financial advisors who urge their clients to preserve the principal in their accounts for years and years on end. The term that's used once a person quits working and starts living off their accumulated wealth is "Safe Withdrawal Rate." That means the amount you can take out—even if in some years it reduces your principal—and still feel confident you won't reach the point where there is time left but no money left.

A guideline called the 4 Percent Rule is used to help make this happen. The time-honored rule has been questioned as overly strict in curtailing the dollar amounts a retiree can feel free to go through each year—in what is supposed to be an enjoyable time of life. In the years leading up to your actual retirement, you're well advised to keep tabs on how this debate is unfolding, including how it's affected by economic growth and recessions, or major shifts in the stock and bond markets.

Part of what you'll be weighing is the question of whether you wish to leave money to your heirs. Surveys show that 46 percent of baby boomers are intending to do so, which is less than for generations past but still high compared to other developed countries. Then again, there is the so-called "die broke" notion, which says retirees should lean toward a slightly faster spend-down of their entire portfolio of wealth, to maximize enjoyment of their time on earth—which in the view of many people is the most scarce commodity of all.

For more information to help you plan for a successful retirement you may download the entire new Retirement Guide for Golf Instructors by logging on to the members' website and going to the Business Guides menu. PG