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Is financial freedom hard to attain?

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Thomas J. O'Connell, Correspondent | *July 11, 2016*

It's that time of the year when we celebrate our independence as a country and a people. But, as free as we are, why do so many people still lack financial freedom?

According to a Think Tank study by Financial Finesse and recently confirmed by the Princeton Survey Research Associates, 55 to 60 percent of Gen-Xers and Millenials have little to no emergency funds saved, 28 percent are one emergency away from economic disaster and even fewer have any money saved for retirement. The upside though is that both Gen-Xers and Millenials want to do more, they just don't know how to.

When I asked my 20-something-year-old niece what I could write about the first thing she said was "budgeting." She went on to tell me about how her friends have no money yet go on lavish vacations, can't pay rent but have expensive cars, can't pay debts yet eat out every night of the week.

Now, I'm all about taking responsibility for one's own actions, being responsible and making smart-educated decisions, but I will give you this, our education system (from grammar school through college) has done a horrific job providing the basic information needed to make smart-educated financial decisions. Unfortunately, even the Baby Boomer parents had little to no education in this area and have not been able to provide much guidance. According to another study by the Nelson Nash Institute, we pay on average 34 percent of our income to pay just the interest on all our individual debt, such as mortgages, cars, credit cards, student loans, etc. When $34 of every $100 you earn goes to a bank, it's no wonder you can't become financially independent.

So how do we fix that? As my friend Don Blanton is famous for saying, "There's more financial opportunity by avoiding the losses than there may be by picking the winners." What he means is instead of focusing on more risk for a chance at higher returns, focus on the inefficiencies, and you'll get better "returns" without more risk.

OK, I know that's just words, so let's get you a few examples:

- **Coffee** — An average cup of coffee served by some baristas costs $2.50. What if you only got one three times a week instead of 5? That's an annual savings of $250 back in your pocket.
- **Meals out** — With dinner, at an average of $10 per lunch, bringing your own twice a week puts another $1,040 in your pocket. And at an average of $20 per dinner, cooking at home twice a week puts another $2,080 in your pocket.
- **Credit Cards** — Instead of buying things on credit, you waited until you could afford it? Think of the interest you'd save. For argument sake let's call that $500 a year.
- **Taxes** — Let's say by maximizing your tax return you can save another $250, back into your pocket.

So by doing four very simple things that will not have a significant impact on your current lifestyle, you easily could put $4,120 of*your* hard-earned money back into *your* pocket each year. Imagine if you fixed other inefficiencies. On a $10,000 investment, that would be the same as earning 41 percent! How many investments do you know return 41 percent? Or how much risk would you need to take to earn 41 percent?

Now then, the final step: Let's presume once you find these inefficiencies, you're willing to save and invest that $4,120. If you could earn just 4 percent compounding over the next 25 years, that would be another $171,581 in your pocket. That alone is about $100,000 more than most people have saved for retirement now.

I know retirement looks far away for the X-Geners and Millenials, but trust this Baby Boomer, it catches up fast. You need to be in control of your money and your future happiness not someone else. These simple and non-consequential changes can help get you there.

A resident of Bedminster, Thomas J. O'Connell is the president of Parsippany-based International Financial Advisory Group, which offers a variety of retirement planning, wealth management and insurance services. He is also an Investment Advisor Representative of Comprehensive Capital Management, and SEC Registered Investment Advisor, and a Registered Representative of Comprehensive Asset Management and Servicing, member FINRA/SIPC, and both located in Parsippany. For more information, visit www.internationalfinancial.com or call 973-394-0623. All information contained herein is for informational purposes and should not be construed as investment advice. It does not constitute an offer, solicitation or recommendation to purchase any particular security.