Financial Resource Advisors
Your Future… Our Priority

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A John Deere™ Millennial Prepares to Retire [1]

I'm Justin, a 28-year-old John Deere™ employee who wants to be retired. [2] My folks would describe me as adventurous, but I like to think of myself as just enjoying life – in interesting places! Anyway, my parents really only have themselves to blame. We have always traveled for our annual family vacations; a cabin in northern Minnesota, the Grand Canyon, and NYC were all favorite memories of mine. One of the reasons I took my backpacking trip after college was to check a few European cities off my bucket list.

I'm Ryan Shaw, Investment Advisor Representative at Financial Resource Advisors (FRA) of Waterloo. I meet young professionals like 'Justin' as a regular part of my advising work. He represents a generation with a very clear vision of its goals, but financial ones may not be primary. Join us as we explore the things that our fictional Millennial has done well (written in black) – and areas where improvement could make a big difference in his financial future from my perspective (in blue). [3]

I didn't need much money during my "hostel takeover" (Dad's name for it) in my graduation summer, because I used savings from my college job. Around my sophomore year of college, I realized that a good, steady income was going to be necessary to finance my trips long-term.

I've done a good number of jobs over my life, from tending bar to painting fences to tutoring – work can be found everywhere! But once I decided to get my engineering degree, I focused on it. John Deere™ was a perfect fit for me. They were looking for the skill-set I have (luckily) and I am thankful for the work. Both my parents instilled in me the value of earning your own way.

FRA applauds parents who intentionally cover sound financial lessons with their children. **Good money habits learned early are life skills that help kids and young adults navigate their future.**

I love what I do and who I work with. It is challenging (most days) and the income is much better than I had planned. I enjoy the routine of the job…actually more than I thought I would. I feel like I contribute and that my opinion is sought out and valued. In talking to college friends, I realize that isn't always the case for 20-somethings. I have learned a lot from my time at John Deere™ and I hope to work there for a long time, but I have also learned how to finance my "early" retirement.

Here are a few of the must-haves on my quest to retire early. First, I'd like to point out that I am frugal and very careful with expenses. I am not a minimalist, by any stretch, but one of my values is to be an ethical consumer.

Just glancing at your spending habits can show a trend. In a recent study, 79% of Millennials said they pay to eat out, as opposed to 66% of Gen Xers and 56% of Boomers.

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[4] **Learning to spend less than we take in may be the most basic lesson anyone can learn; yet it often goes unmentioned.** If you are looking for a place to begin, this is it.

The first decision I had to make at John Deere™ was choosing my health insurance. I went with a high deductible HSA policy. [5] I am young and healthy and this policy could really save me some money over the long-term.

John Deere™ offers two health plans; both are High Deductible Health Plans (HDHP). At FRA, we commonly address the relative strengths of each plan so Deere employees can make an informed decision. These plans come with a health savings account (HSA), and funding this with tax-deductible paycheck deferrals is key to covering any future costs.

My second employment decision was about Deere's 401(k) matching program. I participate up to the match level. That is simply free money to me. And it is easier to have it leave my paycheck automatically before I see the funds.

A salaried employee can participate in the Deere SIP (Savings and Investment Plan), and a wageworker can participate in the Deere TDSP (Tax-Deferred Savings Plan). Although the underlying investments are similar, the employer matching structures are quite different. This is because of the supplemental defined benefit plan (pension) offered by Deere.

The 401(k) offers a number of mutual fund investments to create a portfolio, and pre-built, diversified portfolios tailored to an employee's specific retirement date. The plan also offers a self-directed brokerage account called BrokerageLink, which gives employees access to thousands of additional mutual funds to utilize. Choosing which investments, or trusting the pre-built "timeline" funds can be rather overwhelming. FRA offers a portfolio management service, BEYOND401(k), to develop a portfolio according to your risk tolerance and time horizon that seeks to maximize the performance of your 401(k).

It is an achievable goal to save 15% of your income no matter what your age. Attaining that savings level puts you on a stronger path toward retirement, and allows you to focus on other short and mid-term goals, such as vacations, or a new home and other future aspirations.

I track my expenses. I actually don't "budget." I just spend as little as needed to live a healthy life.

Here is the flaw in this approach. Not having a written budget—dedicating certain amounts of money to certain categories—leads to overspending and wasted opportunities, making people feel like their finances are "out of control." **Knowing how much money is coming in and going out is a foundational building block for personal**

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financial health. Plus, it makes you accountable – pun intended. There are some great programs and apps available, and some are free!

"Knowing your numbers" is also important. FRA recommends that young professionals understand their debt-to-income ratio, plus their credit score.

When my six-month-after-college student loan grace period was up, I had to swallow hard. I even considered going back to school just so I could defer my undergrad payment. I plan to have it paid in full by the end of this year. I still drive a reliable, very used car, but at least my college debt will be gone.

Many young professionals think of themselves as invincible, but a job loss, an illness or injury, a major household or vehicle repair, or even a small business venture that goes bad can place them in financial peril. That's where an emergency fund comes in.

Millennials should begin working toward building up a "rainy day fund." Eventually having an equivalent of three months of income available (six months is better) should help them survive a short-term financial hardship.

I say "no" to credit card debt in any amount. Cards are easy to get and hard to quit. If you miss a payment, it seems the interest rate goes through the ceiling. I keep one card for emergencies, plus it is easier to use on trips.

Money management skills are important no matter your age, but especially vital when just starting out. People in their late teens and early 20s make decisions that can affect the rest of their lives. There are so many financial factors that aren't just about retirement, like budgeting, saving, credit, and home buying. A teachable attitude makes those lessons easier to learn.

Someday I hope to buy a house, but it is a distant goal. I have begun a savings account specifically for that purpose. I recently got a raise and I am putting some of that extra money in my "house account." I like to fund my vacations fully before I take them, so I have a savings account for them, too.

These days a good credit score seems to be a key to growing wealth. Good credit can help in securing a mortgage at a preferred rate, finding a good deal on credit cards, and even getting a great job. *(Yes, employers check credit scores in addition to your social media accounts!)* To improve your credit score, close unused credit cards, and make sure not to miss any payments! It's becoming more difficult to earn interest on traditional bank savings accounts. Depending on your risk tolerance and time horizon, there may be other lower-risk options to put your money to work.

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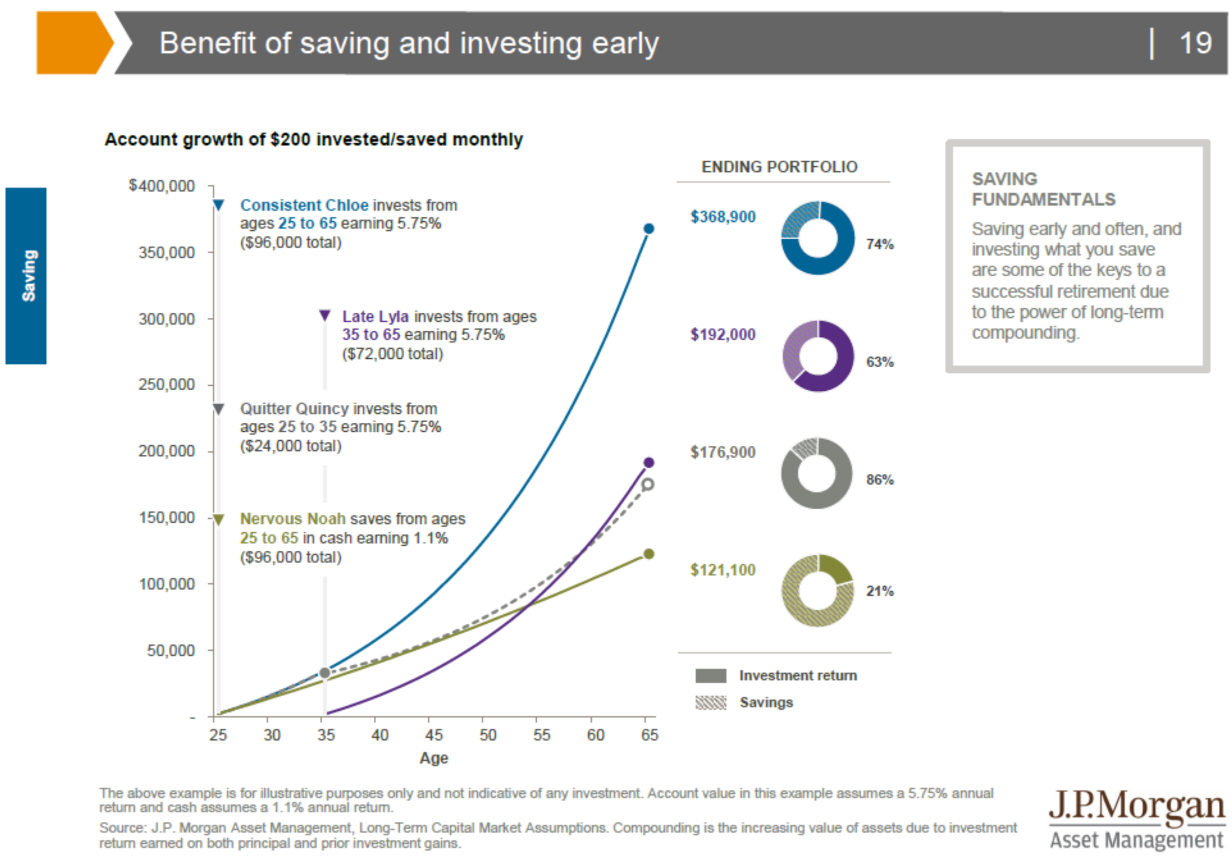
I went to see a financial advisor. A friend of mine said, "You don't have enough money to need one." That may be true right now, but seeing one may prove to be the best investment I could have made. (The initial consult was free, by the way.) I can start working with an advisor at a relatively young age and avoid some mistakes later on.

Something like retirement, 30+ years away, seems unattainable for many young professionals. Even five years into the future can seem too far to comprehend. At FRA, we try to create manageable financial plans that focus on today's activities that build for a better future. **We want to take small steps that take us to those defined goals.**

We use an example to illustrate the power of starting investment habits early. If a 25-year-old started investing $200/month with accrued 5.75% interest, by the time they reached age 65, <u>nearly $370,000 would be waiting for them</u>. Saving early and often, and investing to achieve compound interest are keys to long-term growth.

See this chart for four approaches to funding retirement with results.



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My generation has been knocked for being lazy. That isn't true from what I've seen. The people I know value their freedom highly and a more balanced life can appear like laziness. But as a whole, I believe we just want to find our own path to success. It may not look like our parents' path, but my generation shows our passions through our work, and the causes we support. For me, it will also show in the experiences I have had and the places I have seen.

For Millennials and people like Justin, financial advisors hope to match their investments with their ethical bent. Of course, what is "ethical" differs for each client. That's why it's important to make certain ethical investments align with the impact clients would like to have.

Young professionals face more financial challenges than their parents, yet few of them seek financial advice other than what's found from a Google search. We encourage all John Deere™ employees and others who are just starting their careers to be like 'Justin.' Turn to a trusted, local professional. FRA takes its fiduciary responsibility seriously. Our advice puts our client's best interests first, and that doesn't change no matter their life stage or age.

Read more John Deere™ Case Studies from the FRA files.

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[1] This hypothetical person is presented as a story and case study to educate and illustrate. The actions and examples reflect a composite of Financial Resource Advisors' (FRA) experiences over many years serving clients' needs and objectives. The advisory processes and strategies demonstrate solutions to common issues many people encounter along their financial journey. The objectives for this article are two-fold; to help the reader learn from the stories shared and to know that FRA welcomes the opportunity to discuss their needs and the benefits of professional advice.

[2] We have chosen to write this article partially in story form. Stories teach lessons in an interesting and engaging way. They hold attention while conveying ideas. We have called the main character

Justin, but this person does not exist. Paragraphs involving our fictional John Deere™ employee have been set off in italics. Any resemblance to the financial journey of real people is purely coincidental.

[3] It is generally accepted that people born during a period in our society share common experiences, attitudes, habits, and buying preferences. For this article, we highlight a representative of the Millennial Generation. Here are the birth years for each labeled generation: Gen Z, iGen, or Centennials: Born 1996 – TBD; Millennials or Gen Y: Born 1977 – 1995; Generation X: Born 1965 –1976; Baby Boomers: Born 1946 – 1964; Traditionalists or Silent Generation: Born 1945 or before.

[4] https://www.thebalance.com/how-millennials-spending-habits-compare-to-other-generations-4240695

[5] This is a type of savings account that lets you set aside money on a pre-tax basis to pay for qualified medical expenses. By using untaxed dollars in a Health Savings Account (HSA) to pay for deductibles, copayments, coinsurance, and some other expenses, you may be able to lower your overall health care costs. HSA funds generally may not be used to pay premiums.