



Rate of Savings vs. Rate of Return

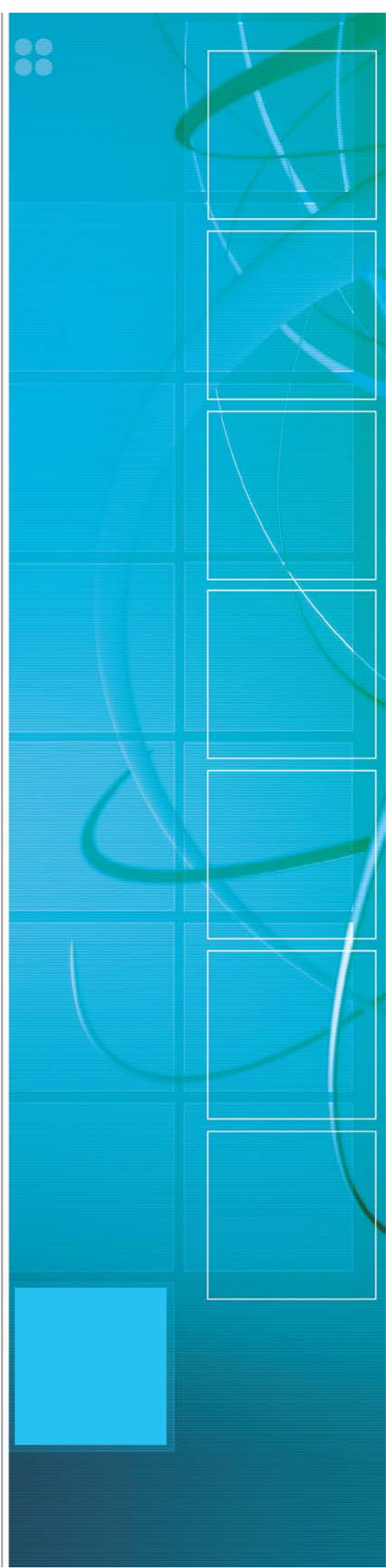
By Carl A. Lutz, ChFC®, RICP®, CLTC
Financial Advisor
Park Avenue Securities

The roaring 90s induced a new set of expectations amongst the masses. All people needed to do was to keep their present retirement accounts or investment accounts fully invested in the booming stock market and there would be adequate money to retire. To talk about returns less than double digits was blasphemy! Pick up the Wall Street Journal, put the stock prices page up on a wall, move 3 feet back, cover your eyes with a black cloth, take one dart and throw it on the wall. The stock it hits – buy it, and the next day the value would go up. Come Y2K and reality set in. By the end of the year, the words "stock market" would cause people to cringe. Thus began the lost decade - 10 years without any gain in the indices of the stock markets. The chairman of the Federal Reserve at that time, Alan Greenspan, described the rising stock market as irrational exuberance. It proved to be so. After the crash, he started the process of reducing interest rates to rekindle the economy and the stock market. It had a different effect. Mortgage interest rates began going down. Value of people's homes and investment properties started rising fast. The pundits returned. Real estate was the choice of investment and mortgages were available to those who had a Social Security Number and a pulse. All caution was thrown out of the window as banks began loaning money with "no down payment – no income check – no asset check." Several institutions had to be bailed out by the Federal government. The FDIC had to take over several banks.

This roller coaster ride down the path of "legalized gambling" has led to what is likely the worst personal financial situation for a lot of Americans. The average amount of savings for the baby boomers is \$50,000.00 total. Most of them will depend on Social Security as their primary source of income. It seems apparent that the traditional financial planning model of "high risk equals high rate of returns" has failed Americans. We believe that "high risk equals high risk," and the idea of chasing rates of return has promoted low rates of savings.

Let's compare the following scenarios:

1. Low Rate of Return & Low Rate of Savings
2. High Rate of Return & Low Rate of Savings
3. Low Rate of Return & High Rate of Savings
4. High Rate of Return & High Rate of Savings

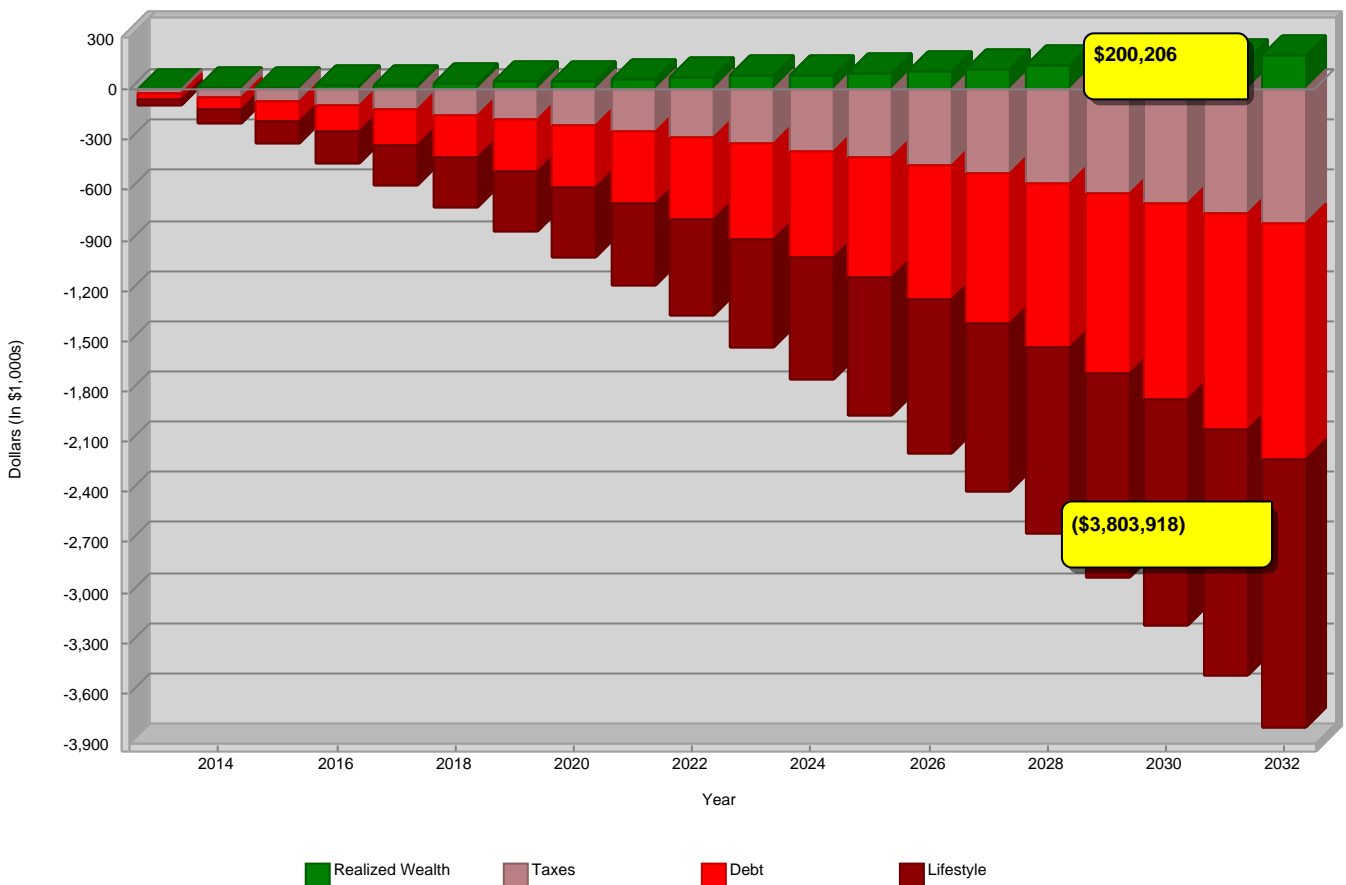


LOW RATE OF RETURN LOW RATE OF SAVINGS – SCENARIO 1

In this example we are assuming that someone is earning \$100,000, saving 5% of their gross income, and getting a 4% rate of return. As you can see the rest of the currency (\$95,000) per year is being spent on debt, taxes, and lifestyle. This leaves the client with \$200,206 of assets for retirement. Most people realize this is not sufficient to provide for a dignified retirement. When faced with this situation; however, many times the conclusion is to take greater risks in order to get a higher rate of return.

Assumptions	
Income	Expenses
Study Period (in years): 20	Taxes %: 20%
Year 1 Income: \$100,000	Debt %: 35%
Annual Income Rate Increase: 3%	Lifestyle %: 40%
After-Tax Rate of Return: 4%	Annual Saving %: 5%

Wealth Building Potential



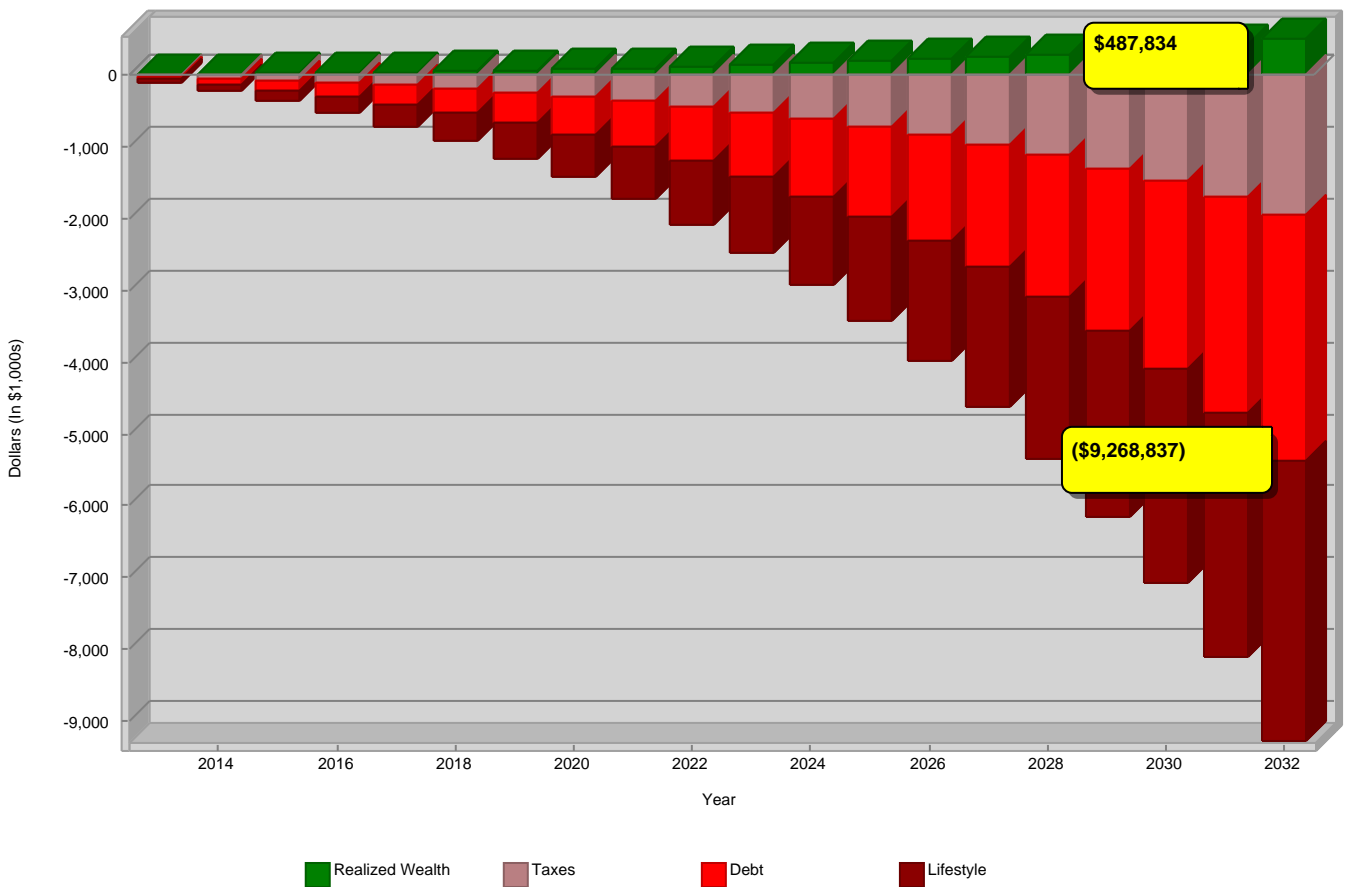
These calculators are designed to be informational and educational tools only, and when used alone do not constitute investment advice. The results presented by this calculator are hypothetical and may not reflect actual results. The information is not intended to be considered tax or legal advice. Neither The Guardian Life Insurance Company of America nor its affiliates, subsidiaries, employees or agents (including Guardian Insurance & Annuity Company, Inc. and Park Avenue Securities LLC) are responsible for any human or mechanical errors or omissions arising from the use of these calculators.

HIGH RATE OF RETURN LOW RATE OF SAVINGS – SCENARIO 2

The assumptions stay the same. The only variable we changed is the rate of return. We went from 4% to 12%. Now the client has \$487,834 available for retirement, but she took additional risk to get there, which we know is not guaranteed.

Assumptions	
Income	Expenses
Study Period (in years): 20	Taxes %: 20%
Year 1 Income: \$100,000	Debt %: 35%
Annual Income Rate Increase: 3%	Lifestyle %: 40%
After-Tax Rate of Return: 12%	Annual Saving %: 5%

Wealth Building Potential



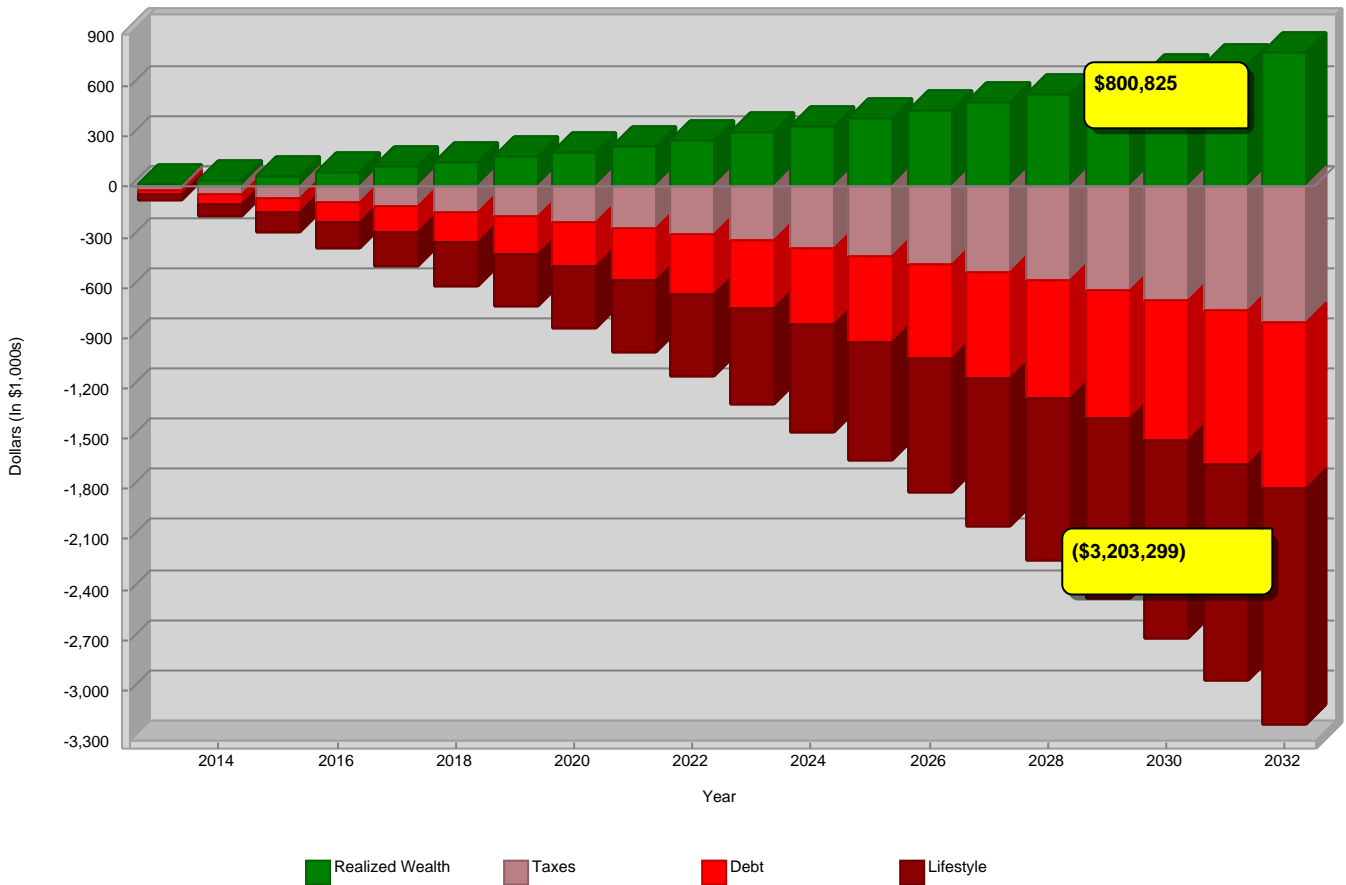
These calculators are designed to be informational and educational tools only, and when used alone do not constitute investment advice. The results presented by this calculator are hypothetical and may not reflect actual results. The information is not intended to be considered tax or legal advice. Neither The Guardian Life Insurance Company of America nor its affiliates, subsidiaries, employees or agents (including Guardian Insurance & Annuity Company, Inc. and Park Avenue Securities LLC) are responsible for any human or mechanical errors or omissions arising from the use of these calculators.

LOW RATE OF RETURN HIGH RATE OF SAVINGS – SCENARIO 3

In this scenario we reduced debt by 10% and lifestyle by 5% allowing this client earning \$100,000 per year to increase her savings to 20%. We also lowered the expected rate of return back to 4%. This person has more money and less risk than the person that was chasing a 12% rate of return.

Assumptions	
Income	Expenses
Study Period (in years): 20	Taxes %: 20%
Year 1 Income: \$100,000	Debt %: 25%
Annual Income Rate Increase: 3%	Lifestyle %: 35%
After-Tax Rate of Return: 4%	Annual Saving %: 20%

Wealth Building Potential



These calculators are designed to be informational and educational tools only, and when used alone do not constitute investment advice. The results presented by this calculator are hypothetical and may not reflect actual results. The information is not intended to be considered tax or legal advice. Neither The Guardian Life Insurance Company of America nor its affiliates, subsidiaries, employees or agents (including Guardian Insurance & Annuity Company, Inc. and Park Avenue Securities LLC) are responsible for any human or mechanical errors or omissions arising from the use of these calculators.

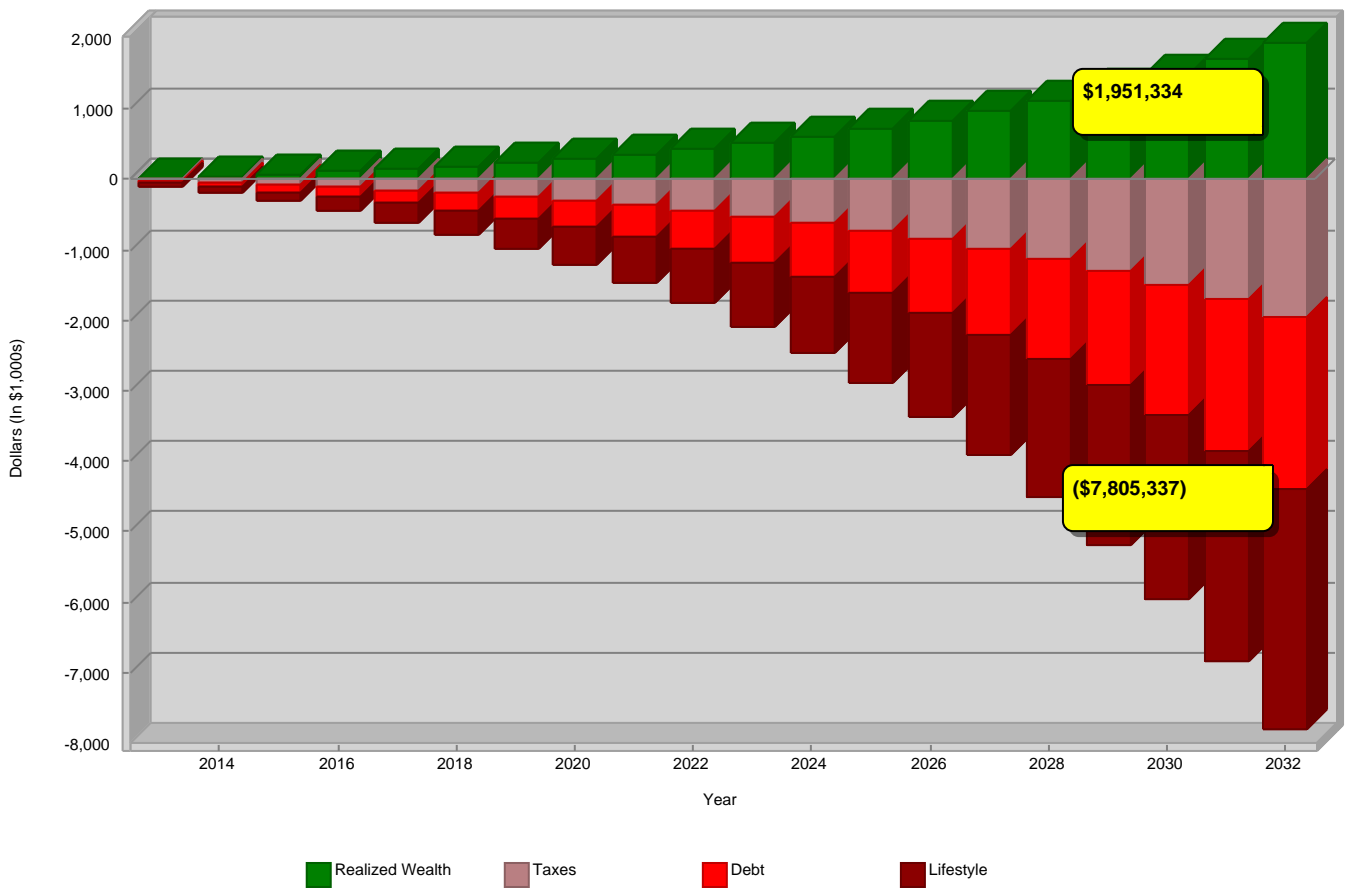
HIGH RATE OF RETURN HIGH RATE OF SAVINGS – SCENARIO 4

My question is, if you are lucky enough to get a 12 % rate of return, why not get in on a high rate of savings? That way, if you're not lucky "enough," at least you had good cash flow management habits during the accumulation stage, and you are not nearly as disappointed as the person in Scenarios 1 and 2 with a poor rate of savings.

Assumptions

Income	Expenses
Study Period (in years): 20	Taxes %: 20%
Year 1 Income: \$100,000	Debt %: 25%
Annual Income Rate Increase: 3%	Lifestyle %: 35%
After-Tax Rate of Return: 12%	Annual Saving %: 20%

Wealth Building Potential



These calculators are designed to be informational and educational tools only, and when used alone do not constitute investment advice. The results presented by this calculator are hypothetical and may not reflect actual results. The information is not intended to be considered tax or legal advice. Neither The Guardian Life Insurance Company of America nor its affiliates, subsidiaries, employees or agents (including Guardian Insurance & Annuity Company, Inc. and Park Avenue Securities LLC) are responsible for any human or mechanical errors or omissions arising from the use of these calculators.

Now let's discuss these four scenarios in the context of a story. The story is that of a traditional financial advisor and a client. The client meets with the advisor; the advisor, Bob, asks difficult questions, such as "how much money will you need in retirement?" The client, John, says "well.... I read that a retiree needs about 70% of their pre-retirement income for retirement." Bob says, "Great, how much money have you saved so far?" He also asks, "When do plan on retiring?" John says, "Unfortunately, I haven't saved much. That's why I'm here. But I plan on working another 20 years." Bob has one last question for John, "How much do you think you can save every year?" John proudly replies, "5% of my gross income."

Now the number crunching comes into play. Hmmmm current age 40, nothing currently saved, wants to start saving 5% per year with a 20 year time horizon. Oh yeah, how much do you make now? \$100,000 per year.

Scenario 1 – Well John, it doesn't look like you will have enough money in 20 years. You might have to increase your risk tolerance.

Scenario 2 – Well John, if you're willing to take more risk you, might have a decent shot at retirement, but you will most likely have to work longer than 20 years. High risk equals high rate of return. Of course there are no guarantees that you will earn 12% every year.

Scenario 3 – John decides to meet with someone that helps him analyze his cash flow. Through some macroeconomic strategies, John is able to reduce some of his debt and lifestyle expenses and redirect them to savings. Wow, he has a lot more money already, without increasing risk.

Scenario 4 – Now that John sees how he can save 20% vs. 5% he wonders if he could get a higher rate of return. What would that look like?

What's the moral of the story? Most people chase high rates or return and increase their risk because they aren't saving enough. If you're saving the right percentage of your income, you're not forced to chase rates of return and take on unnecessary risks. I mean really, if you're not saving enough and the projections say you won't have enough money, do you really want to gamble with the little bit that you will have?

At Lutz & Associates our mission is to help people resolve their conflicts and contradictions around money so that they can live a more peaceful and prosperous life.

We apply macroeconomic thinking to people's protection, savings, growth and cash flow decisions leading them to optimal financial balance, allowing them to alleviate financial threats and to meet their financial obligations with more certainty than luck.

ABOUT THE AUTHOR

Carl Lutz

Since 1999, Carl has served over 400 families and business owners in the area of building and protecting wealth. He has consistently qualified as a member of the Million Dollar Round Table (MDRT) in recognition of exceptional professional knowledge, strict ethical conduct, and outstanding client service. MDRT membership is recognized internationally as the standard of sales and excellence in the life insurance and financial services business.

Registered Representative and Financial Advisor of Park Avenue Securities LLC (PAS).
OSJ: 600 Delaware Avenue, Buffalo, NY 14202, ph# 716.817.7109 . Securities products and advisory services offered through PAS, member FINRA, SIPC. Financial Representative of The Guardian Life Insurance Company of America® (Guardian), New York, NY. PAS is an indirect, wholly-owned subsidiary of Guardian. Lutz & Associates is not an affiliate or subsidiary of PAS or Guardian.

This material contains the current opinions of the Carl Lutz but not necessarily those of Guardian or its subsidiaries and such opinions are subject to change without notice.
2018-63993 Exp 8/20

