

5 Keys to Financial Independence for this John Deere™ Employee ¹

Background, Starting With a 401k and Questions They Asked Along the Way

Have you ever wondered how Bob and Eileen² got such a nice house, went on that great trip to the Far East with their whole family in tow, and seemed to always drive a nice SUV? Their neighbors may have thought, "John Deere™ must pay their engineers a fortune!" (Average salary is actually around \$84,000.³) In fact, it wasn't until the most recent years that Bob earned a salary over \$100,000. Let's open up the financial story of this Cedar Valley couple – including the numbers – and look inside. Read on for a reveal of what solutions may be available.

We pick up Bob and Eileen's story when they were in their late 30s – so with about 25-30 years to go until they wanted to retire. They had three young kids, a mortgage, and Bob had an engineering job with Deere. Bob seemed to get most of his investment knowledge and advice from the evening news or the financial magazines – when he had time to read them. He is an intelligent man, but his time was filled with lots of responsibilities, including a growing family.

We sat down with Jay Bullerman, President of Financial Resource Advisors (FRA) of Waterloo, to ask about his experiences with couples like 'Bob and Eileen.' "My work with young couples, whether they work at John Deere™ or not, commonly starts with an expressed desire to have 'a huge pile of cash at the end of the game.' We often spend a good portion of our first meeting just talking about what they want out of life and sorting through what is important to them. We talk about foundational elements of FRA's planning process, such as expectations of retirement and goals, comfort level with risk, and then some 'knowns' like assets, debts, and current savings rates. There aren't any recommendations made in a first meeting even though the

¹ This hypothetical couple 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 two main characters Bob and Eileen, but those names were chosen randomly. Paragraphs involving our fictional husband and wife have been set off in italics. Any resemblance to the financial journeys of real people is purely coincidental.

³ The typical John Deere™ Engineer salary is \$83,979. Engineer salaries at John Deere™ can range from \$67,499 - \$96,160. This estimate is based upon 25 John Deere™ Engineer salary report(s) provided by employees or estimated based upon statistical methods. https://www.glassdoor.com/Salary/John-Deere-Engineer-Salaries-E195_D_KO11,19.htm 11/6/20

‘engineer’ part of John Deere™ employees want to get to the solution fast. We begin with a risk profile. This is such a foundational step to understanding the client’s makeup and then matching investment objectives to it. Of course, all clients needs change over time, but I’m getting ahead of myself.”

Questions are common when starting the financial journey with a family in tow. Here are a few of them.

How do we pay for college?

What happens financially if the major wage earner dies while the kids are still young?

Am I saving enough for retirement?

How would we pay for a major health crisis?

Who decides how our money is handled after we are gone?

Are we invested correctly for solid returns?

How can we handle a major economic downturn?

Do I have to be so frugal that I can’t have any fun?

How can we structure this so taxes don’t eat up all we’ve accumulated?

*After clarifying their risk profile, we reviewed Bob's Deere **401k Plan**. Bob participated at the minimum level. With Deere’s plan, he had the ability to pick from a limited number of investment choices ranging from cash with a low interest rate to international funds and everything in between. We look for any disconnect between how his dollars were invested and what Bob and Eileen’s goals are.*

Financial advisors understand the weighting of investment types, overall allocation, and the importance of regular routine maintenance and rebalancing. It’s not uncommon to find that 401k assets are ‘bar belled’ – with one half having extremely high-risk and the other half in cash (very secure but low earning). Many clients are surprised that his or her investments were actually set up that way with no real reason as to why it happened.

We talk through the solutions to misallocation and introduce a program of regular review and maintenance. Using both FRA’s Brokerage Link solution (which opens up investment choices) and the Roth 401k option (that can allow qualified withdrawals on a tax-free basis), we can set up a plan aligned with long-term goals that brings confidence. Because of that, clients often feel comfortable increasing their 401k-contribution levels.

Life Insurance Choices and HSA Issues

*Through meetings and conversations, our relationship grew and I understood more and more about their situation, lifestyle, and other areas of their financial life. We covered FRA's Review Checklist and the next step was reviewing Eileen and Bob's **Life Insurance**. Like many of our new clients in the early stages of investing, they had some life insurance, but they weren't confident in the type of insurance they had or if it was a sufficient amount to achieve their goals. Life insurance is basically the transfer of risk that a family cannot afford to bear in an extreme situation.*

In the case of Deere's group term life insurance, it provides income replacement for the primary breadwinner. Often, we also deal with older universal and whole life insurance policies. In this example, we helped Bob and Eileen find the insurable interest in Bob's income replacement need and do a viability check on his universal life policy to see if it was being correctly funded. That determined the role that the term insurance would play in the long run for their family's situation. We found, given their goals, that they were slightly underinsured. We made adjustments on the Deere enrollment to increase the coverage from 4x Bob's salary to 6x. We replaced an old universal life policy he had with a significantly more affordable, yet still permanent, policy with a death benefit of \$500,000. We made sure the beneficiaries were updated, too.

FRA's focus is on our clients' needs and their best interests. FRA's financial advisors serve as fiduciaries. We have the ethical obligation and duty to put our clients' best interests ahead of our own. This should minimize conflicts of interest and reinforce the trust clients place in a financial advisor.

Over the years as our relationship has gone on, we have revisited the group term insurance such as when Bob turned 50. We will again at age 55. With Deere's group term insurance cost structure, we understand that the older you are, the more you pay. Consequently, there is a crossover point where owning level-term insurance outside of the Deere policy becomes more affordable and effective.

Next on the list of financial assets, we address a **Health Savings Account (HSA)**. FRA does not offer this product, but we often explain and educate on it. In high-deductible health insurance plans, a health savings account can result in tax-deferred growth and some great peace of mind. It is a tool in the toolbox to consider. The use of an HSA offsets the cost of the \$4,000 to \$5,000 annual deductible, and it is profitable and simple with Deere's annual contribution and the employee's systematic contributions from payroll.

As we find in most circumstances with a new client, Bob and Eileen had 100% of their HSA assets in a savings account. It became apparent that having their account balance beyond \$5,000 to \$10,000 – very conservatively invested – was a missed opportunity. By using the brokerage investment options and opening a second HSA account in Eileen’s name (since she is over 55), we were able to defer additional dollars for use later to cover potential health care costs in their retirement years.

Paying for College and Still Living Well

If our clients find themselves with kids and no **College Savings**, the reality of a large looming expense can be a financial stress. Since college expense happens often well ahead of retirement, and since we know when it starts and when it should end (generally), the analysis of the goal is relatively simple. Then, the crystallization of the goal and commitment of the parents allows for a very targeted approach. As we walk through the cost assessment, we are able to come up with some solutions.

For Bob and Eileen, we used money from three sources they already had coming in! There were annual gifts from grandparents plus money in the budget that could be applied to systematic savings every month as well as some dollars from summer jobs that the older two kids had begun. Bob and Eileen soon had a plan covering the college costs for the first two already attending and building for the third.

Often the wrap-up of our initial phase is the review of **Wills, Powers of Attorney, and Trusts** (when it applies). In many cases, these are not completed or are outdated. It is necessary in any estate-planning situation to align beneficiary designations on IRAs, life insurance, and other employee benefits with the objectives of the client and the estate documents. A good dialogue creates a clear understanding and often leads to updates in the beneficiaries and the Wills. We have found that FRA’s advisory relationship, built through the years, gives clients and their adult children a foundation for financial conversations and a trusted source of information.

One misconception of a fiduciary relationship (like FRA) is that once we start an investment plan that a client can't have any “fun” with their money or to spend their resources on things they enjoy. Quite the opposite is true! What we find very often is that if clients have a clear understanding of their financial situation, they are much more likely to give themselves permission to spend on a discretionary basis. It also has the potential, later in life, to do gifting they feel led to do. Saving for a family trip, or a vacation home, or another meaningful life event can be a great reward at the end of a successful long-term plan.



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