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wealth maximization strategies *

August 2019

8000 Days:

When we read or hear the word "millionaire," we have been conditioned to think of someone who is ultra-wealthy, a big financial success. But being a millionaire doesn't have the same cachet it had 60 or 100 years ago; because of inflation, there are more millionaires than ever, but their true financial status is lower.

A better metric for comparing wealth might be a ratio of assets to income. In 1930, an individual with $1 million in assets (a millionaire) who earned $20,000 a year (placing them in the top 10 percent) had an assets-to-income ratio of 50:1. Today, someone with $1 million in assets and a $100,000 income (also in the top 10 percent), has a ratio of 10:1.

Although both individuals are millionaires, the relative wealth of the 1930 millionaire is five times higher. But almost no one modifies the term by describing them as a "50:1 millionaire vs. a 10:1 millionaire." One million dollars continues to be a financial milestone.

Retirement: In Years or Days?

For a long time, the framing measurement for human life has been years. But just like it might be helpful to reframe millionaires, the way we assess our lives – particularly retirement – might benefit from an alternative numerical standard, using days instead of years.

Joseph Coughlin is the founder and director of AgeLab at MIT in Cambridge, Massachusetts. AgeLab is a "multidisciplinary research program that works with business, government, and NGOs to improve the quality of life of older people and those who care for them."

Coughlin feels strongly that the existing frames for old age are both incorrect and limiting. Where many sociologists and economists see the problems and burdens of an aging population, Coughlin thinks we should focus on the benefits and opportunities. In a May 2019 *New Yorker* article, "Can We Live Longer, But Stay Younger?" he articulates a different vision, one which focuses on days instead of years.

"Over the past century, we've created the greatest gift in the history of humanity—thirty extra years of life—and we don't know what to do with it! Now that we're living longer, how do we plan for what we're going to do?

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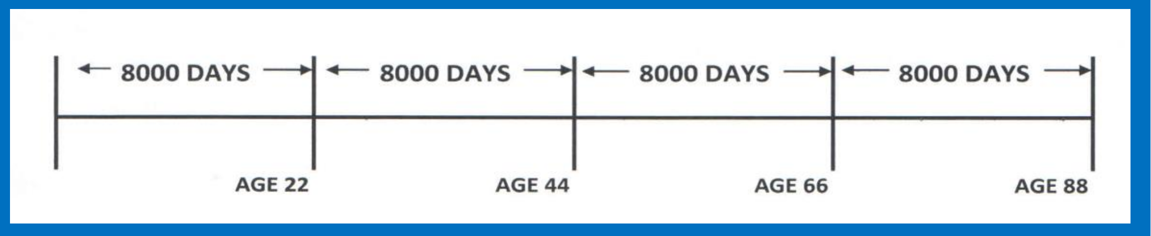

"Here's a useful model for you. From zero to twenty-one is about eight thousand days*. From twenty-one to midlife crisis is eight thousand days. From mid-forties to sixty-five—eight thousand days. Nowadays, if you make it to sixty-five you have a fifty-per-cent chance you'll make it to eighty-five. Another eight thousand days! ***We're talking about rethinking, redefining one-third of adult life!"*** *(emphasis added)*

** FYI: 8000 days is 21 years, 336 days*

Coughlin might be right about redefining the last one-third of adult life. Americans are still "in process" about what these 8000 days could look like, and they are hampered to some degree by the persistence of framing life in years.

When Social Security was established in the 1930s, life expectancy was a little past 60; it was thought that relatively few Americans would live long enough to collect benefits. A half-century ago, 65 was your retirement age. For many employers, it was a rule; at 65, you were done. When the government introduced IRAs in the 1970s, it also mandated that required minimum distributions would begin at age 70½. All these standards saw retirement as a short-term event, a waiting-to-die period that typically wouldn't be longer than a decade. These standards haven't changed, even though longevity has.

A typical response to increased longevity from the experts in personal finance? "Well, if you're going to live longer, you'll have to save more." This default exhortation to save more reflects an idea that, even with increased longevity, retirement still starts at 65 (or when you reach Full Retirement Age for Social Security at 66 or 67).

For many households, this is a discouraging prescription. Not only do they need to save more, but not doing so implies a failure to meet a cultural norm: *("You're over 65? Why are you still working?")*

Why should 65 remain the milestone for retirement? There are other responses to increased longevity besides having to save more and have it last longer.

New Stories, New Rituals

Instead of clinging to age 65 as an arbitrary marker for old age and diminished capacity, Coughlin suggests, "Why don't we take that one-third and create new stories, new rituals, new mythologies for people as they age?"

Coughlin is sincere about creating a new narrative. Some interesting research indicates a retirement paradigm *not* anchored in age 65 could be better for you, physically, emotionally, and financially. Consider these two ideas that could dramatically change the format of your "extra" 8000 days.

Phased Retirement

Most personal finance models still project retirement as a sharp break; employment stops, income from savings begins. In contrast, a phased retirement is one where you gradually work less as you age, but perhaps never stop working. Phased retirement has some obvious financial advantages: you don't have to rely exclusively on Social Security or savings to provide income, and your saving window is expanded.

Thus, phased retirement might be a hopeful option for households that are currently struggling to save enough to retire by 65. But the benefits aren't just financial. In fact, the health and social benefits of a phased retirement might be much better reasons to consider it.

- A December 2018 FEDWeek.com summary cited studies indicating that "longer working careers are associated with improved health at older ages…Working longer is associated with lower mortality, depression and diabetes risk for both men and women."
- Citing the findings of a Georgetown University study, a June 2018 *USNews* article reported "work provides many opportunities for learning, reasoning and social engagement, all of which stave off the adverse effects aging can have on the brain."
- A joint study from Cornell and Syracuse concluded that participants who continued to work into their older years had a "25 percent increase in the size of their social networks, while people who retired saw their networks shrink."

Multigenerational Housing

In the retire-at-65 paradigm, the last third of adult life is often characterized by several life-jarring transitions. There's the downsize move, to a smaller home or condo. Then, depending on health and the geographic distance from family, there's a move to a senior community. And quite often, the final living arrangement is in a nursing home or hospice.

Next to the loss of a spouse, a relocation is one of life's most stressful events; who wants three of these stress events after 65? Instead, you might consider a multigenerational housing arrangement, with adult children (or even grandchildren).

A multigenerational household has two or more adult generations living under one roof. The Pew Research Center reports this arrangement is "an intriguing trend in housing: More and more Americans are opting to live together." Compared to just 12% in 1980, 20% of Americans are living with two or more adult generations in a single household.

Some of this trend is driven by economics; younger generations, hampered by debt and stagnant wages, find it harder to enter the housing market. But Pew writer D'Vera

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Cohn says "many people who come together by necessity are staying together by choice. There's an increasing awareness and even embrace of a lifestyle that brings different generations together under the same roof." In short, multigenerational living offers many of the same social and health benefits as continuing to work.

A May 2019 *FastCompany* article says "for families that can afford it, major homebuilders are now offering 'multigenerational' floor plans that make space for three or more generations." The retirement condo may be replaced by the family villa.

8000 Opportunities

The implications of redefining your 8000 gift days could have a big impact on your financial decisions. Working longer could change when you take Social Security, how much you save, and why you might borrow (instead of downsizing, you might find yourself co-signing a mortgage on a family estate property). It could impact your career path, estate plans, insurance programs, everything. ❖

You see them in half-hour informercials, as guests on the business or news channels, and in the self-help aisle of your local bookstore. They are what might be called "financial entertainers," people who have found a niche as personalities dispensing financial advice to the masses. Since their message is directed to a broad cross-section of America, their prescriptions for financial success are relatively vague and vanilla – get rid of credit card debt, save consistently, invest for the long term, etc. To counter the blandness of their message, most of these gurus of personal finance have some schtick to get your attention and make their message stand out; it's a catch-phrase, a branded plan for success, or maybe a stream of outrageous and provocative comments that makes you say "What?"

A Call for Austerity – and the Blowback

A frequent topic for these provocative outbursts: the frivolous spending habits of American households. According to their narrative, many Americans, particularly Millennials, aren't making financial progress because they spend too much money on "non-essentials." If they would just embrace a little austerity, they could have a wonderful retirement.

Two years ago, the poster child for non-essential spending was avocado toast, and this eyebrow-raising comment:

"Stop buying avocado toast if you want to buy a home."

Earlier this year, barista-prepared caffeinated drinks were in the crosshairs:

"Your Coffee-Buying Habit Could Hamper Your Retirement."

And finally, one columnist just went for the whole enchilada, declaring:

"You don't need that: The average adult in the USA spends $1,497 a month on nonessential items."

This statement came complete with a list of non-essential expenses that could be redirected to retirement savings, including gym memberships, Netflix accounts, meals at restaurants, rideshares, personal grooming (i.e., haircuts, manicures, etc.) and a catch-all category, "impulse purchases."

All of these comments are variations on the concept of opportunity costs – this is what might have been accumulated if it wasn't spent on something else. But ***every*** dollar spent today incurs an opportunity cost. What makes a dollar spent on avocado toast a bad decision? Who determines what's essential?

Intended as sound bites for social media, the lack of nuance in these statements also makes them ripe for sarcastic responses. In *Hamlet*, Shakespeare wrote "Brevity is the soul of wit." With an average tweet of just 34 characters, The Bard would have loved Twitter. Here is a sampling of tweets about the savings that could be realized if you decided to get serious about cutting out non-essentials and redirecting it to retirement.

- Do you know how much beer costs? And tickets to ball games? And sneakers? Underwear? You could live like a retired king if you sat inside all day nude for 40 of your adult years.
- I pay almost $100 every month for water service to my home when there's a perfectly good golf course lake down the street for bathing and drinking, smdh
- I already don't drink coffee. Can someone cut me a check for my $1 million?

It appears a lot of Americans don't respond well to being shamed about their supposedly "indulgent" lifestyles. But is it really the case that these non-essentials are the reason they aren't saving for retirement?

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What the Gurus are Missing

These personal finance entertainers aren't wrong. Little stuff does add up. But the reason their comments seem tone-deaf is because they make it sound like every financial decision in your life is about having enough money for retirement. That's not true.

It is prudent to save for the future. It is also reasonable – some might say necessary – to maintain a balance between saving for tomorrow and enjoying today. But rants about coffee make it sound like any expenditure that isn't "essential" is a crime against your future and your personal integrity. As far as they are concerned, until you have established a retirement plan, and funded it, you have no right to enjoy any material pleasures, not even a $4.00 coffee.

This prescription of extreme delayed gratification is de-motivating. And it ignores the two realities of life: You might not live to enjoy retirement, and even if you do, there may be some things that your age and health will preclude you from being able to enjoy.

Furthermore, for Americans who could be saving more but aren't, their problem isn't the little stuff. It's poor decisions about big things, and it usually involves debt. Their mortgage is too big, their car is too expensive, they can't pay their credit cards off each month, and their student loans aren't going to be repaid until they start collecting Social Security. Self-denial in the little things isn't going to fix those issues.

Hope Deferred or Desire Fulfilled?

Instead of nitpicking the little things, or obsessing over retirement, why not focus on some intermediate financial goals, some steps in the right direction? For example:

A generation ago, saving for a down payment was a financial starter project. The target was probably more than the family had ever saved before. It was also something to achieve in two to five years, close enough to be real.

This combination often compelled the family to get their financial house in order, to zero in on saving. And it frequently laid the foundation for a lifelong habit. Instead of borrowing, the household learned how to enjoy the present, and feel confident about tomorrow, by saving.

A Jewish proverb says, "Hope deferred makes the heart sick, but a desire fulfilled is a tree of life." In personal finance, little victories can create momentum. If your financial plans don't include a few desires fulfilled, you ought to consider making different plans. ❖

What is your financial condition? Are you where you should be? How do you know?

You might not hear those questions audibly, but every day, in some fashion, those thoughts are always there. Money may not dominate your life, but very few of us can completely ignore it. How we are doing with money is a significant measure of how well we are doing with life.

There are lots of ways to assess your financial condition…

- An accountant can calculate your profit and loss and prepare a net worth statement.
- The Personal Finance industry has a plethora of statistics, ratios and computer programs to determine your financial fitness, to tell you if you're on track to retire, have enough insurance to survive a loss, and whether your allocations match your risk tolerance.
- Government agencies, economists, and research teams compile statistics, so you can determine if you're above average compared to your peers.

…but the answers aren't definitive.

These resources can give you an assessment, and a context to determine your financial condition. But measuring your financial life against an external standard has some shortcomings. By definition, everyone cannot be above average; inevitably, there will always be someone, somewhere, at some time, whose condition is better than yours. Just because you're doing better than someone else doesn't mean you're in great shape.

And while a lot of personal finance can be expressed in numbers, it's not the whole story. A subjective assessment may be a better way to define your financial health.

The following is a quick **10-question quiz** from personal finance columnist Jared Dillian. The objective: to see if you are happy with your financial situation and whether you have a healthy relationship with money.

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1. **Do I have enough cash on hand to cover any emergencies?**
2. **Do I have enough for a reasonable standard of living in retirement?**
3. **Can I easily afford small luxuries?**
4. **Can I give 2% of my income to charity (excluding church) without trepidation?**
5. **Is my marriage free from fights over money?**
6. **Do my friends think I am a generous person?**
7. **Do I wear clothes I want to wear?**
8. **Do I derive pleasure from using the money I earn to buy material things?**
9. **Am I debt-free, or close to it?**
10. **Do I invest in tax-advantaged retirement accounts to the best of my ability?**

The self-assessment: "If you can answer 'yes' to most or all of these questions, then money is your friend. It works for you—you don't work for money."

There's nothing earth-shaking here. But beyond the typical questions about debt, saving and retirement, the quiz gets you to think about whether you enjoy your money, how it affects your relationships, and how others might interpret your financial life. That's a pretty comprehensive assessment – and it doesn't require any math. ❖

FOMO & FOL: The Same but Different

Jack, he sits back, collects his thoughts for a moment, Scratches his head, and does his best James Dean, "Well, now then, there, Diane, we ought to run off to the city."
Diane says: "Baby, you ain't missing no-thing."
- "Jack and Diane," by John Mellencamp

If you're up on text acronyms, you know that FOMO is "fear of missing out." FOL? It's a lesser-known marketing term that stands for "fear of loss." Another phrase for FOL is "loss aversion."

Economist and psychologist Daniel Kahneman is a 2002 Nobel Prize winner, notable for his work on the psychology of judgment and decision-making. In a 2015 presentation, Kahneman discussed how the interplay between these two fears often triggers poor financial decision-making.

It is Kahneman's contention that human beings feel and fear loss much more than they enjoy gain. "Clients are more sensitive to loss than gain…people aren't concerned about their level of wealth, but changes in their wealth."

In the abstract, investors may believe they have a high-risk tolerance, i.e., they are willing to accept the possibility of loss to have the opportunity for greater gains. This belief is often proven to be false if a loss is actually incurred. Despite historical evidence that many investments deliver superior returns if held through ups and downs, most investors will not endure the immediate psychological pain of today's loss to retain the possibility of tomorrow's gains.

FOL is Legit

FOL has a basis in reality. Losses really do impair progress.

Here are the annual returns for three hypothetical investment options, over a three-year period, based on a one-time $10,000 deposit:

Annualized Return	Option 1	Option 2	Option 3
Year 1	11%	3%	-3%
Year 2	9%	3%	7%
Year 3	-10%	3%	5%
Ending Balance	$10,889	$10,927	$10,898

(Note: it doesn't matter in what order the losses or gains occur. The 3-year Ending Balances will be the same.)

Of the three choices, Option 2 not only produces the highest balance, but is arguably the easiest to achieve; you might be able to find an investment that ***guarantees*** 3 percent per year. And from a psychological perspective, Option 2 is also the most loss-averse selection. But then FOMO shows up.

FOMO: Another Type of FOL

Suppose your neighbors happened to choose Option 1 while you decided to heed your fear of loss and choose Option 2. What happens after year 1 when they casually mention they earned 11 percent? And then, a year later, they notched 9 percent. In two years, your neighbors have $1,500 more in gains than your humble, afraid-to-take-a-chance, 3-percent. If the FOMO wasn't gnawing at you the first year, it's probably taking big bites of your psyche the second year, right?

Kahneman says both FOL and FOMO act on the emotion of regret. With FOL, it's lost money. With FOMO, it's the loss of opportunity. When we lose money, we regret making the decision. With FOMO, we think we can "rescue" yesterday's

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regret by making a decision today. This explains why so many investors, having seen an investment rise in value, will seek to buy that investment after it's had its run.

In our example, FOMO would compel us to switch to Option 1 in the third year – and end up with only $9,548. **(Ouch.)**

Controlling FOL and FOMO

The above example is just numbers, but you can see how FOL and FOMO could influence your decision-making each year during this short period. Then consider that real-world accumulation plans are intended to be carried out over 30 or 40 years. That's a lot of FOL and FOMO moments to wrestle with. How do you keep your plans from being sabotaged by your fears?

A simple approach: Separate your FOL from your FOMO, and don't let them interact. Allocate a portion of savings to safe financial products and remind yourself that, despite what others may receive from volatile investments, this is money you don't want to risk losing.

In tandem, consider allocating some savings to pursue greater returns – with the full knowledge that some losses are likely to be incurred along the way. And to really keep from bailing on your long-term plan, some financial professionals will recommend that you don't track daily or monthly performance. If you're in for the long haul, don't watch it every day.

One last thought: In real-world scenarios, the historical results achieved by steady, low-risk accumulation plans compare favorably with the results achieved by individuals whose plans are constantly adjusting to FOL and FOMO influences. The old adage that higher risk is necessary to achieve higher returns might be true, but no one says you have to take those risks. Depending on how you respond to FOL and FOMO, it might be okay to minimize risk and just tell yourself "you ain't missing no-thing." ❖

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