



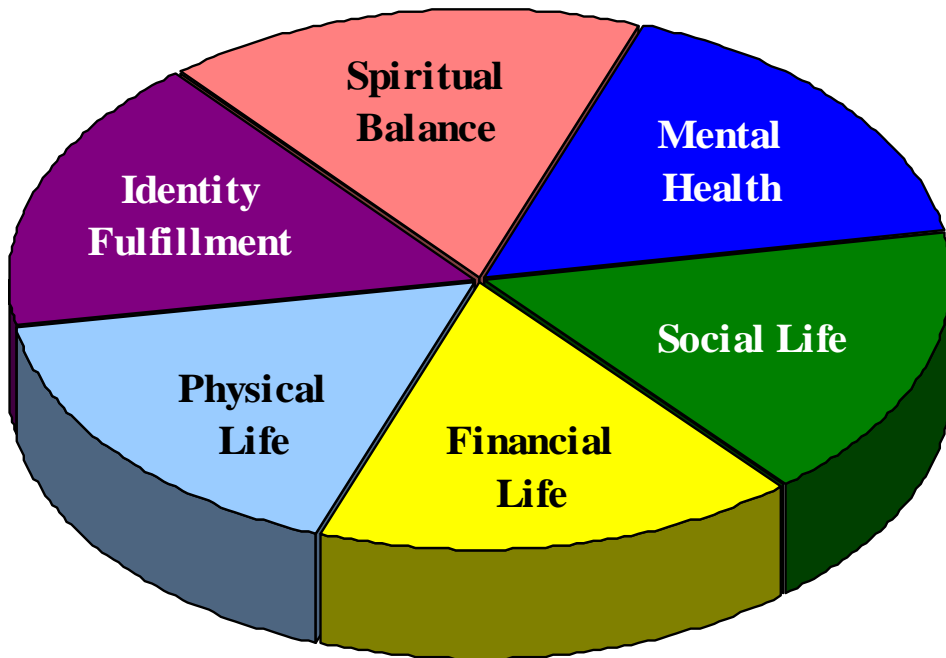
**Heartland
Institute**

Empowering Organizations and Their People Through Financial Education

Seven Financial Blind Spots



“Total” Life Planning



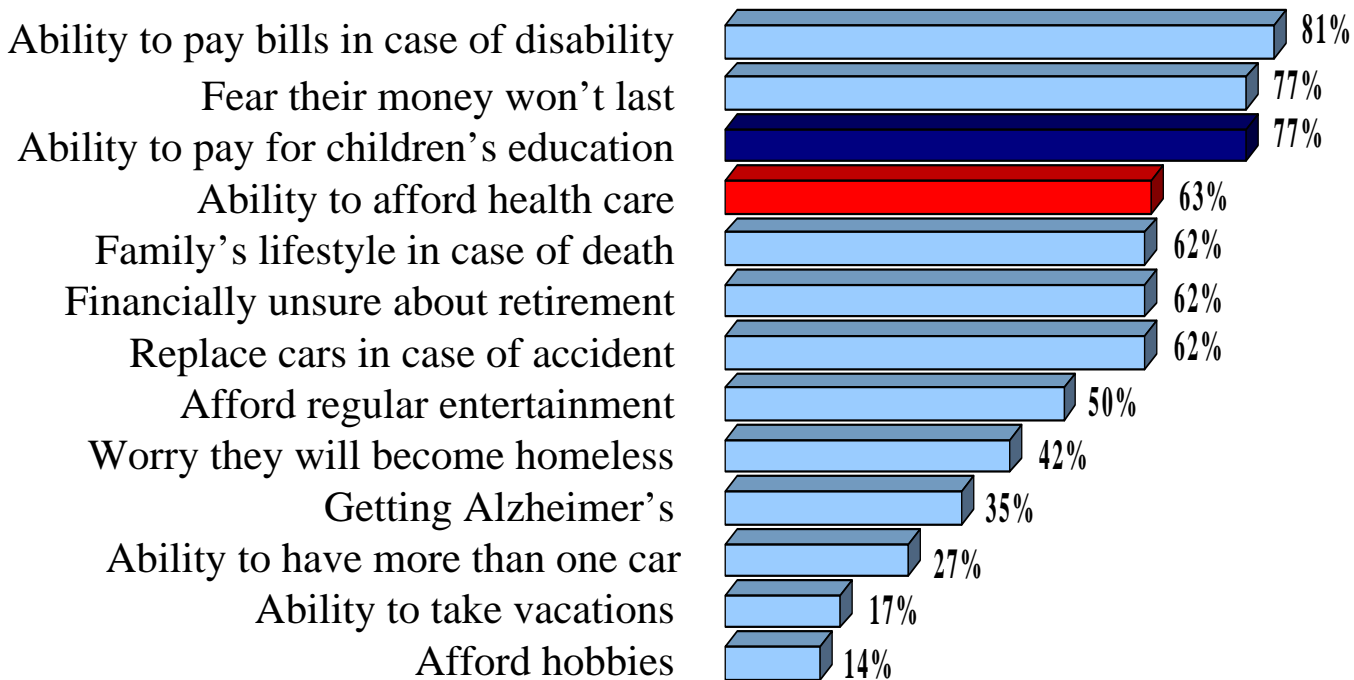
“Many people seem to think that success in one area can compensate for failure in other areas. But can it really? True effectiveness requires balance”.

Stephen Covey

WHAT AMERICANS FEAR

Our biggest fears?

Percentage saying they are “concerned” about the following:



Results collected from “Retirement Reality Check” survey from Allstate and Incharge Education Survey. (2004)

Why Do People Fail Financially?

Did you know that . . .

Only 5% of Americans age 65 are financially ready to retire?

Department of Health & Human Resources

75% of retirees depend on friends, relatives or Social Security as their only source of support.

Social Security Administration

Only 3% of Americans have written goals?

Harvard Business School

The fastest growing age group (percentage wise) is age 85 and over?

Wall Street Journal

75% of the elderly poor are women?

Department of Health & Human Resources

Total Liquid assets of persons age 65 and over are approximately \$4,000 per capita.

National Council on Aging

93% of people age 65 who failed financially said they lacked a plan?

Llama Cooperative Research

On average 25% of people over 65 must continue to work?

Social Security Administration

SEVEN BLIND SPOTS

1. I don't need written goals.
2. Government programs and my company pension will take care of my retirement.
3. Inflation won't hurt me that much.
4. Taxes will go down when I retire.
5. I must pay my home off early.
6. I'll do something about it tomorrow.
7. I must retire by age 65 or before.

The Essentials of Goal Setting

- Specific - It must be clearly seen and should be written down.
- Measurable – Feeling and seeing progress is important for staying motivated.
- Attainable – A realistic path to achievement means that a goal should be challenging, but reachable.
- Rewarding – There should be clear beneficial reasons for achieving the goal.
- Timely – Setting a deadline is important as it may help protect from procrastination and perfectionism.

“Obstacles are those frightful things you see when you take your eyes off your goal”. Henry Ford

Income At Retirement...

What Is Real?

Fiction



Earnings 4%



Social Security 24%



Savings 18%



Pension 48%

Fact



Earnings 28%



Social Security 20%

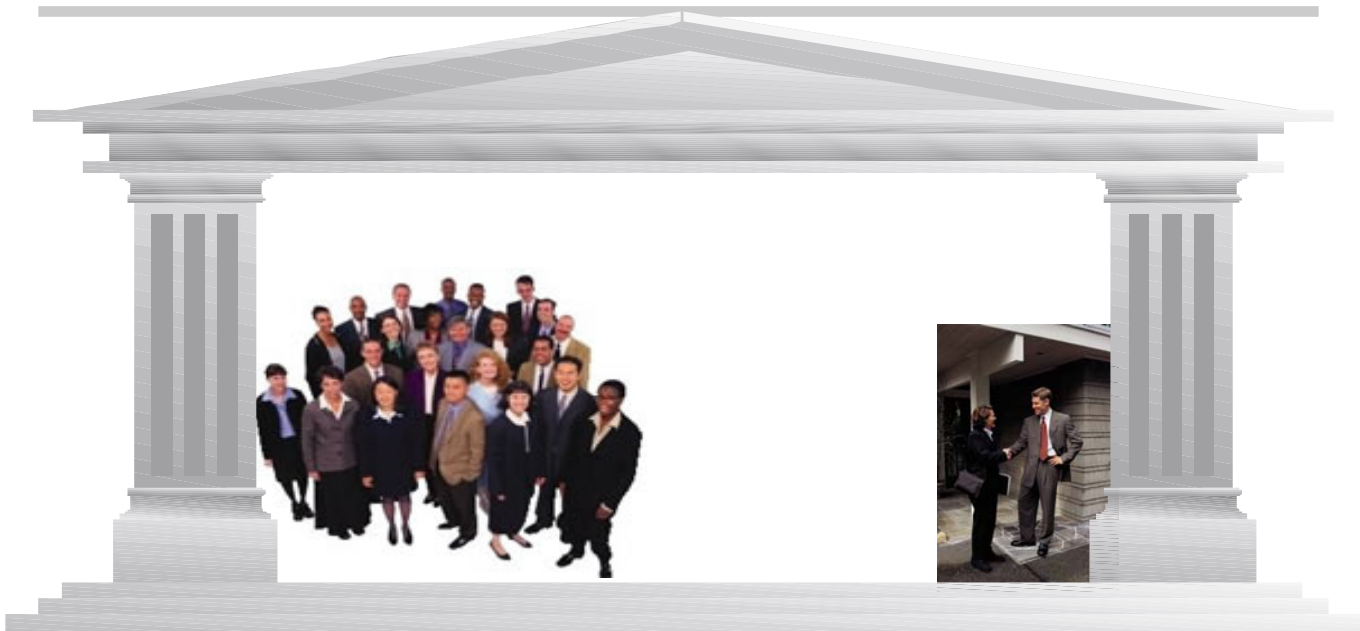


Savings 30%



Pension 20%

Will Our Social Programs Support an Aging America?



1946 40:1

2005 3:1

Source: Social Security Administration

Inflation Won't Hurt Me That Much

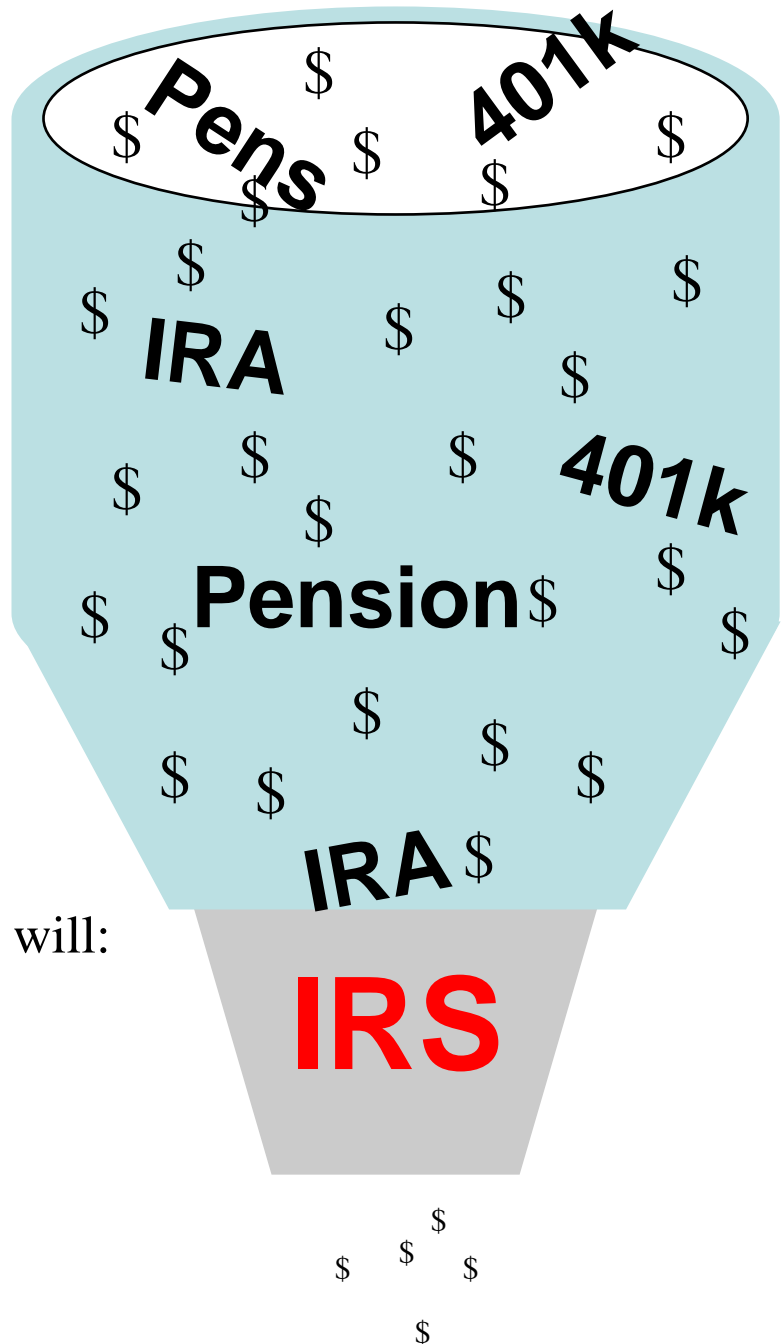
ESTIMATED COST	1980	2005	2025**
Loaf of Bread	50¢	\$ 1.05	\$ 2.30
Ground Chuck (per lb.)	\$ 1.82	\$ 2.51	\$ 5.48
Eggs (per dozen)	88¢	\$ 1.35	\$ 2.96
Natural Gas (100 therms)	\$ 34.90	\$ 115.00	\$ 252.00
Gasoline (per gallon)	\$ 1.13	\$ 2.53	\$ 5.54
Automobile	\$ 6,925	\$ 23,700	\$ 51,930
House	\$ 26,900	\$ 224,600	\$ 492,126

***Average inflation for all above listed items is 4.07%**

****Future prices in 2025 are based on 2005 prices and assumes a 4% rate of inflation**

Source: U.S. Department of Labor, Bureau of Labor Statistics

Taxes Will Go Down At Retirement



Do you think taxes will:

Go Up

Stay Level

Go Down

When you retire?

I Must Pay My Home Off Early – Good Idea??



- You pay an extra \$10,000 against your mortgage
- Mortgage interest is 6%; tax bracket is 30%; invested earnings yield 8%; inflation is 3%
- You will save \$11,583 of mortgage interest over the next 30 years
- The \$11,538 of savings is worth 4,380 in today's dollars
- The \$10,000 becomes \$44,677 at 8% over 30 years in today's dollars
- \$44,677 after taxes = \$31,274

Result? You gain nearly \$26,894 by not paying down your mortgage.

Procrastination = Putting off Things That You Should Be Doing Now

Causes:

- Lack of clear written goals
- Poor understanding of difficulty for completion
- Poor understanding of time required for completion
- Desired outcome is too ambitious
- Fear of failure
- Fear of success

Costs?:

Age	Annual Contribution	Age Withdrawal	Value*
40	\$3000	65	\$224,448
41	\$3000	65	\$200,000

A difference of \$24,130

*Example assumes a 9% rate of return with no income tax consequences (such as a Roth IRA)

Will You Be Working After Retirement?

Nearly 30% of “retiring” Americans continue to work after retirement.

There may actually be some GOOD reasons to consider doing so.

- Supplement retirement income
- Continue enjoying working relationships and friendships
- Stay active and live longer
- Keep a more balanced life style
- Contribute to your business and society
- Develop a hobby into a business

What Do They Say Now?

My suggestions to those who are not yet retired would be:

1. Start planning immediately for it. The younger the age the better. Retirement days come sooner than you presently realize.
2. Obtain membership in American Association of Retired Persons and other such groups, get their materials and books, and begin at least to make tentative plans for your retirement.
3. Set up an IRA account and put some amount into it regularly. Also set up other long-range investment programs as can be afforded.
4. Try to determine what your needs will be by the time you are to retire.

-69 year-old married woman

I would have sought information on preparing for retirement, such as information on money management, the pros and cons as to selling my house, and living in a different locality. I would have tried one of those travel tours to experience the good and bad aspects of it and to know how expensive such travel is, and also investigated the recreational possibilities for senior citizens and the civic activities possible. I can still do these things but don't have quite the courage to risk the chances of failure that I would have had when I had a stable job to return to. Now I must proceed more cautiously.

widower

-67 year old

In my case it would have been useful to have considered more than I did the following while I was still actively working:

1. The matter of possibly relocating after retirement.
2. Medical and health coverage to supplement Medicare.
3. A program of physical activities which could be expanded after retirement. In short, health maintenance measures.
4. More thought as to areas of interest and pursuits to be followed after retirement.

A start should be made during the working years.

The last two are a way of saying one should not become so absorbed in one's work as to exclude other things. If probably would make one better at one's work, apart from considerations of a better retirement.

-67 year-old married man

If I could go back to pre-retirement, I would plan more carefully for the after-retirement period by:

1. Taking a course in retirement which my university offered, or get into retirement counseling program.
2. Studying earlier and more thoroughly the financial aspects of retirement.
3. Plan to continue to work part-time (preferably in a new field) and gradually ease toward total retirement.
4. Take up more hobbies.
5. Become involved more with people outside my work situation

-70 year-old single woman

Source: "Getting Ready" by Mario Miletti

Solving the Seven Blind Spots

1. Begin with the “right” brain (anticipate the future)
2. Build a “spending plan” for retirement
3. Make certain your assets are adequately protected
4. Discount anticipated Social Security
5. Prepare for taxes and inflation
6. Plan on living to age 100!
7. Start today

What Does Your Future Look Like?

1) Who are the important people in your life?

2) Which areas of your life would you like to receive more of your attention?

_____ Physical/Health

_____ Hobbies/Leisure

_____ Spiritual

_____ Career

_____ Family/ Friends

_____ Financial

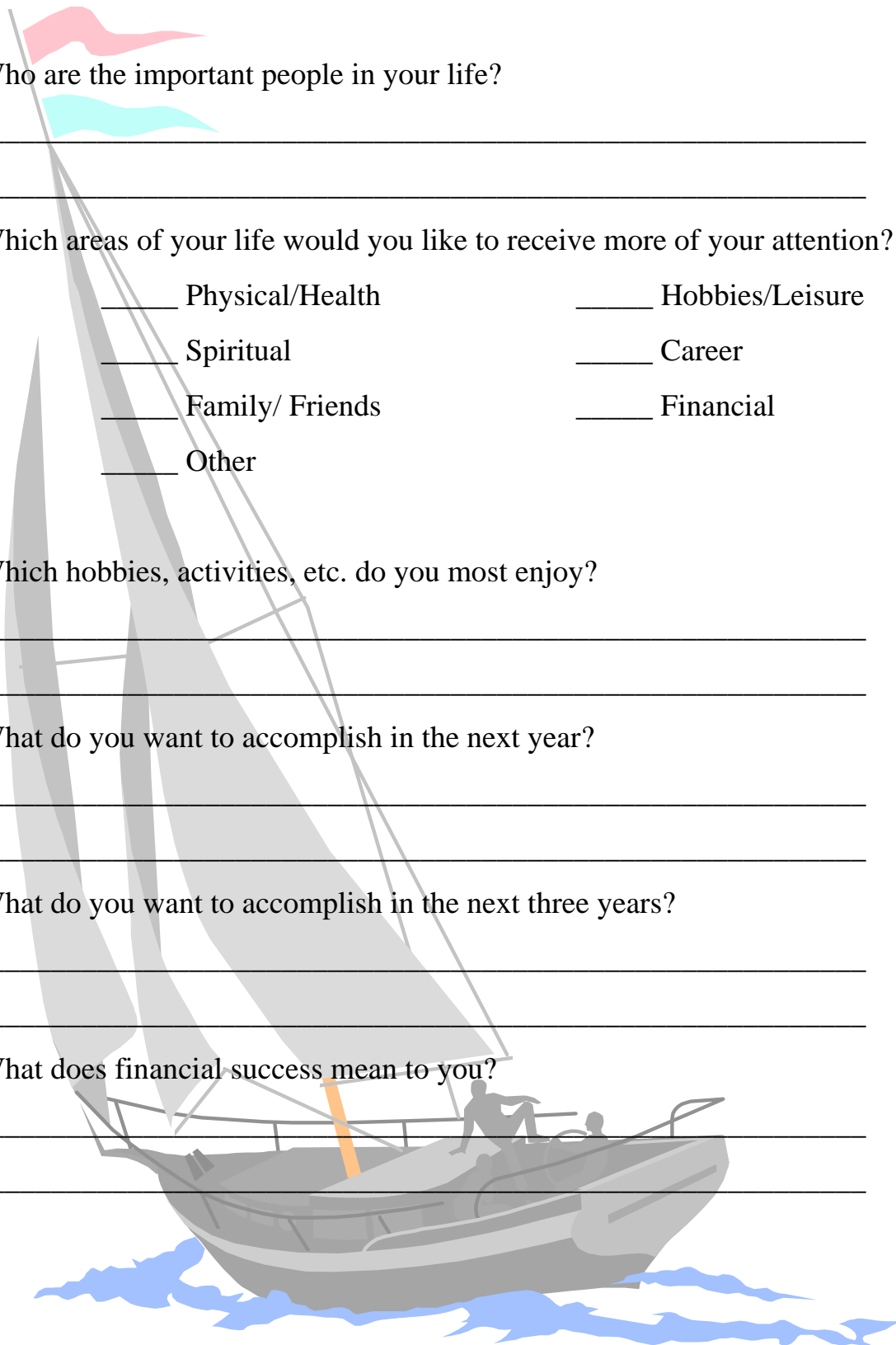
_____ Other

3) Which hobbies, activities, etc. do you most enjoy?

4) What do you want to accomplish in the next year?

5) What do you want to accomplish in the next three years?

6) What does financial success mean to you?



Spending Plan for Retirement

- 👁️ Will your house be paid for?
- 👁️ Will you be driving two cars?
- 👁️ What will medical costs, including prescriptions and insurance, be like?
- 👁️ Will you travel more?
- 👁️ Will an increase in hobbies and recreation cost more?
- 👁️ Will you eat away from home more or less?
- 👁️ Will you spend less on clothes?
- 👁️ What will happen to your home maintenance costs?
- 👁️ Does your budget include grandchildren expenses?
- 👁️ What other things might affect you?

Monthly Expenses

TOTAL TAKE-HOME MONTHLY INCOME \$ _____

EXPENSE CATEGORIES

SUGGESTED PERCENTAGES

	ACTUAL Expenses%	SUGGESTED PERCENTAGES			
		Single	Married No Kids	Married With Kids	General
Housing/Upkeep	_____/____	20-23	23-25	22-25	20-30
Utilities	_____/____	3-4	3-5	3-5	3-5
Savings, Investments	_____/____	8-9	8-10	8-10	10-15
Food	_____/____	8-9	8-9	8-10	10-15
Debt Payments	_____/____	8-9	4-5	1-2	0-10
Vacations, Entertainment, Hobbies	_____/____	7-9	7-8	3-5	3-10
Transportation	_____/____	7-8	6-7	4-5	7-10
Insurance	_____/____	4-5	2-3	3-4	3-10
Clothing, Personal care	_____/____	3-4	4-5	5-6	3-8
Gifts, Contributions	_____/____	3-4	5-7	5-8	3-10
Medical Expenses	_____/____	1-2	2-3	2-4	1-4
Child Care, Education	_____/____	1-2	1-2	7-8	2-8
Unreimbursed business Expenses	_____/____	1-3	1-3	1-3	1-5
Mystery Cash	_____/____	1	1	1	1
Maintenance, Child Support	_____/____	0-4	0-4	0-4	0-4
Total Expenses & Percentages	_____/____				