Sound Financial Bites 028 - Paul Adams

Episode Transcription

> *"It's your responsibility to your spouse, and to your future relationship, that you both get involved in this financial conversation."*

Likely, if you're the one listening to this podcast, you may be the spouse in a couple that tends to be - I don't want to say more responsible, but we'll go with that - more responsible for the finances. If you're listening to this podcast because you're that person in your household, it's your responsibility both to your spouse and to your future relationship that you both get involved in this conversation.

Hello, Paul Adams here. Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life.

Hello, and welcome to Sound Financial Bites. My name is Paul Adams, your host of this podcast, and president and CEO of Sound Financial Group. It's great to have you with us today. Today, we're going to continue last week's talk on cultivating contentment. Yet, what we're going to talk about is that when we cultivate contentment, if we've been able to shield ourselves from the pressures of the current pressing down on us, this idea that we get swept up in technology and consumption and spending, if we can shield ourselves from that during our working career, what does that mean in retirement?

In our last episode, we talked about the fact that what you need to do is actually design it. You need to sit down, write out, six months from now, what do you want life to look like? Three years from now, what do you want life to look like? Five years from now, what do you want life to look like. More importantly, while it's great to have those designs for a big life, a surplus life, the first step is to say, "What would be minimal for me still to have a good life?" It creates that constant and important reset for us, despite the fact that the current is throwing so much information at us trying to have us increase our consumption.

So, what does that mean when you get toward retirement? Well, number one, one of the first things we have to do is when you sit back and you design that life that's sufficiency, that is the amount of lifestyle. What does lifestyle need to look like? What's the car that minimally is still a good life. Well, for me, it needs to be functioning, it needs to have four doors, maybe a bike rack on the back, that's it. Then, what does that, now, look like across all the domains that I care about? So, my health and fitness, minimally, what does it need to look like for me to have a good life in that department? What does it need to look like in terms of commute? Am I okay with commuting three hours every day each direction or do I want to be somewhere I can get to the office in 20 minutes? Those are all important things for you to sketch out for your good life, your sufficiency life. Now, that creates the initial reset of understanding how much surplus we actually enjoy today.

Lastly, it now gives us the ability to get clear on how much income it takes to produce our minimal good life right now, and what is our surplus life that you're likely currently living. How much does that really take in income per year? So, first, we need to write out what does our lifestyle look like? What do we want our lifestyle to look like, sufficiency and surplus. Then, price it. What does it take to live that life from an income perspective? What you're going to find is that there's a number. Most important: I cannot tell you how many people we have met with across our entire firm where, if we were to ask how much is enough, it kind of ends up like a little bit more than what I have now. And that creates this horrible kind of discontent for people where they're constantly chasing the next thing, and who ends up setting their strategy in their life is not themselves. It's the marketplace, it's the boss, it's the large customer that puts demand on you. That's not what we want you to have; we want you to design that life ahead of time.

Now, we can say here's what it costs. For instance, maybe that's sufficiency life costs $80 thousand a year. But, the life you're living now after tax, spending all that, costs $160 thousand a year. Like, you can figure that out. You can do the math. Most importantly, doing that with your spouse, likely, if you're the one listening to this podcast, you may be the spouse in a couple that tends to be - I don't want to say more responsible but we'll go with that - more responsible for the finances, or the person that is more likely to have the financial conversations as a household.

If you're listening to this podcast because you're that person in your household, it's your responsibility both to your spouse and to your future relationship that you both get involved in this conversation. Here's why: what it also does once you're observing yourselves differently is you can observe everybody else differently. Let me give you a for instance. When you look at the way people spend money and then you can draw it back consistently to understand how much capital at work it takes to live that lifestyle, you start to realize everybody around you how, frankly, flat busted they are, meaning they don't have nearly as much as they might think they have. They just have a great income.

So, let's go back to our for instance of doing the math and realizing your sufficiency lifestyle that is good enough to have a good life, takes $80 thousand a year, and your surplus lifestyle that you currently enjoy, you're spending $160 thousand a year. The difference between those two is vast, especially when it comes to the amount of capital at work it takes to replace one or the other. Let me explain. We've talked before about the fact that the sustainable distribution rate for someone with their money is that they can take out about 4% a year. That's what most financial journals currently talk about. Some are saying it could be as little as two and a half or three.

But, for the sake of our conversation, we're going to center around 4% distribution. So, 4% distribution off and a capital at work, a pool of money that's specifically set aside for investments. Quick pause. This does not mean your net worth. What this means is the amount of money that's specifically set aside capital at work to be able to produce income for the rest of your life. Taking a 4% distribution off of that means that your $80 thousand a year lifestyle is going to take $2 million of capital at work invested to be able to distribute enough to have that $80 thousand a year lifestyle for the rest of your life. If it's $160 thousand, because that's your surplus lifestyle, that's $4 million of capital at work. $4 million required to get that job done, and the fact of the matter is most people don't have it.

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I drive through my neighborhood and I look around and I think there's some pretty decent incomes around, but I also know because the demographic's the area that my wife and I enjoy an income, and have been blessed with an income that's much higher than most anybody that's around us. The difference is we are saving enormous amounts of money. And, just odds are, statistically speaking, the people around us are not. It allows us to observe it differently. So, we can drive through the really nice neighborhoods with all the really nice cars and produce a situation for ourselves where we're not bothered or upset just because somebody has a cooler car, and that we don't have what they have right now.

So, when you realize that it takes $80 thousand to live your sufficiency lifestyle, 160 to live your surplus, now these numbers, you've got to make them yours, suddenly you realize the differential and capital at work is a game changer. Most people don't have the amount of capital at work on their balance sheet that would replace their current consumption. But, now that you're reflecting a little bit on the sufficiency versus the surplus number, it may be coming present to you the fact that if we spend less money, we're saving much more money and we're cultivating contentment in a lifestyle that's more easily achieved with the capital at work on a smaller amount of money.

Let me explain. If somebody is two households, one saving, no money, but after tax consuming $160 thousand a year, and another household making the exact same amount of money consuming $80 thousand, meaning they get the chance to save $80 thousand a year, they're saving much more money, number one, and the amount of capital at work they have to build to create the life they want is half as much as the family that's consuming $160 thousand a year.

Now, what I would encourage for all of you is not everybody become an enormous penny-pincher and don't enjoy your wealth at all. Fact of the matter is most of the people listening to this podcast will be people that have not had deeper reflection about whether or not the way you're spending money even produces contentment in your life. In fact, some of you are spending money away that actually produces more discontent because you're chasing what Thomas Stanley would say in his book, "Stop Acting Rich", that you're chasing something called the "glittering rich" lifestyle, and just buying pieces of that lifestyle. And a lot of it is literally made up for us.

I'll have a fun attack on my wine-drinking friends. My wife and I like wine, but we just drink sort of whatever sort of wine we have. We went to this wine tasting and literally, there was one of the guys there that is super proud of his -- and he has a beautiful wine collection. Certainly, a couple hundred thousand dollars or more of wine in his basement makes enormously expensive wine choices at restaurants, and certainly has a palette that can describe the different kinds of wines.

Now, we went to a blind wine tasting at a friend's house. Just kind of a fun party to be able to say, "Let's just see what we pick as wines," and we all rated the wines, and across the board, what one, the wine pick every single time, two years running, was the Francis Coppola Vineyards, I don't know, $12 a bottle, and it crushed in ratings, the $250 bottle of wine. Now, why I say that is so often, the amount of contentment we have in our lives is set by our own interpretation.

So, if what you can do is reset that, you can see that you can save much more money putting yourself in the position to become a world-class or better saver, which means we have more money capital at work, which means that capital at work doesn't have to work as hard to provide our lifestyle. I don't want you to just punch out and decide, "I'm going to save to the bone," and then just punch out and be done with the way that I'm contributing to the marketplace. Many of you listening are business owners or top 1% income earners in your specific domain. We just want you to be free. We don't necessarily want you to start contributing the way you contribute to the marketplace. We just want you to be in a position where you have the choice to be able to say, "You know, I could stop working if I wanted or I could change the way I work, or the next time somebody tries to negotiate a deal with me that I don't like with my employer or with my partner, I realize I could step away and I would be okay with it." That's what I want you to be able to do.

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If what you can do is have enormous amounts of freedom and contentment, it starts with cultivating contentment so that you're able to actually say this is the lifestyle I want without the current affecting you, then second, use that as an opportunity to increase your savings rates, build your capital at work so that it grows more quickly, work with a coaching advisor and educator like one of the people with our firm, help that be more efficient. But, most importantly, if you're able to cultivate contentment, the amount of lifestyle that has to be maintained for the rest of your life, the capital required to produce that lifestyle is not as much.

Because, if you could see yourself in a spot where even if you don't live that way today, if you just said, "Hey, my sufficiency lifestyle is $80 thousand a year. I could really get by, and it's good enough everything at $80 thousand a year after tax," even if you choose to live a higher lifestyle, knowing that, at any time, you and your spouse have a strategy where you could cut back to $80 thousand a year changes everything. The birth of a child, the injury of a child, a disability, and a family tragedy involving something medical, you now have all the options to not have the finances press in on you. You get the opportunity to press in on your finances right now, so that when life happens to you, your finances can't press back because you've taken the time to design and build a good life.

I hope that you've had a chance to enjoy this today and this idea that you can control the amount of consumption you have by cultivating contentment, and this part two pointing to the fact that it then requires less capital at work for you to have that good life for the rest of your life. I look forward to having you engage one of our team members. They always love to have a conversation with you, 30-minute phone call. We have no idea whether or not our process would be appropriate for you at this time, but what we do know is you engage one of our team in a 30-minute phone conversation, it will merit the time that you invest. Of course, you can go to our website, download past podcasts, you can connect with us by getting our newsletter, you'll know when a new podcast will come up, or if one of our folks have been published in a national magazine, we always send that out, and you can download the first three chapters of our book, Sound Financial Advice, or just shoot us a note on LinkedIn, Twitter, or Facebook, and we'll send you a copy. Have a great rest of your day, and know that we're here to help you design and build a good life.

Hi, Paul Adams here. I want to acknowledge you for taking the time to invest in yourself by listening to our podcast. Not everybody does that, and out of my commitment to you, I will take just a few of our podcast listeners between each of our episodes and spend time with them one-on-one. And if you think you'd like some of that one-on-one time to learn more about our process, our philosophy, or whether or not we'd be a fit to work together, just email info@sfgwa.com. That's info@sfgwa.com and I'll be more than honored to take that time with you. Now, you can also go to our website, www.sfgwa.com, download the first three chapters of my book, see upcoming in person events that we have, or listen to past episodes. You can also go to our Facebook page and engage us there, our LinkedIn, and send us questions for upcoming podcasts .You might hear one of your comments or questions on a future podcast. For our full disclosure, you can check the description on this podcast, or on the podcast series, or go to our website. Have a great day.

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