How Much Is Enough?

◆ Issue #21 ◆ Douglas E. Reese

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This month's issue takes on a new name. In reassessing the value of this insert to "As I See It" and in evaluating the content and context of discussion material, I've decided to change the title from "Money Matters" to a phrase which has come to represent my philosophy of money, and my professional focus of money management issues. It is not only a title, but more importantly a question, one which many of my clients have heard me repeat over and over, in instances when they come to me asking, "Doug, how much will I need for…" and they state whatever it is they're desiring. Sometimes its planning for retirement, sometimes evaluating a practice sale or purchase, other times it's funding children's education costs, or saving for a new home, a large vacation, or simply planning the year's budget. My response usually begins with the new title to this paper…"How Much Is Enough?"

This phrase became an important part of my mission when I seriously began assessing my usefulness in money management for others, and for myself. One of the three parts of my professional mission statements reads: "Helping others remove money as a barrier to their fulfillment, and in doing so answering the important question each of us must address on our own…'How Much Is Enough?'"

Notice the key phrase in this last statement, <u>each of us must address on our own.</u> I am a strong advocate for personal choice and fulfillment. I am also a firm believer in collective decision making when multiple interests are involved. Combining these two, and discovering balance in the process, can be a very challenging, but ultimately very rewarding experience. I'm talking about a delicate balance that seems almost impossible to achieve, without a certain level of frustration, disappointment, anxiety, and often a host of other less than desirable feelings. Let's use an example to make my point. (We'll use fictional characters, stealing names from my favorite Dr. Seuss book "Sam and the Firefly").

> Let's assume a young married couple decides it's time to assess their financial situation. They choose a Saturday morning and with much anticipation, put on a fresh pot of coffee, and join at the kitchen table with all of their personal and business papers in front of them. They have files, boxes, organized checks, bank statements, insurance policies, etc. All the makings for a fabulous Saturday of excitement and pleasure.
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> The husband Gus, a man of let's say 35 years, is a man of (self-acknowledged) great vision, a dreamer, a creator, and at the moment, a "starving artist." His dreams are usually about two steps ahead of his income, and thus his beautiful art stacks up on the shelf, while his balances stack up on his Visa and Discover cards. He is a free spirit, willing to look at their finances, but silently dreading the reality that lies in these papers in front of him. And so he decides to open the meeting in rare Gus fashion, with these words, "Now I was thinking we'd begin by laying out all of our plans for next year, you know where we'd like to travel, who we'd like to visit, and what we want to see of the world in '96."
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> Enter Samantha, a usually subdued but potentially fiery redhead, who was raised in a home where "money meant something" as she's often quick to remind her partner. She has been with the same law

firm for 7 years now, since finishing law school. She has a very impressive record as a trial attorney, and at 32 years of age she has set a course for a lucrative career. Unfortunately, her maternal side is beginning to lead her to motherhood and she would like to begin a family in the next year or two. She is the practical one in the family. Very cost conscious and one to shop for a bargain, looking to cut corners where possible, and keep the family afloat on her one income.

She has a different slant on today's financial agenda. She responds, after a deep breath to calm her first impressions of Gus's agenda, with these words, "I don't think travel and seeing the world should be our first priority. Maybe paying off our debt, trying to survive through Christmas, and planning for our tax bill in April would be a good first step." Her tone quickly becomes less than genteel.

Exit stage left, Gus's interest in today's money meeting. A sudden feeling of unworthiness comes across him, after all he is the unemployed one. And his dreams of far away places fade amidst the stack of credit card bills which Samantha is now beginning to sort through. He rises to get a cup of fresh coffee, hoping this morning's batch is strong enough to carry him through the coming nightmare.

We'll stop there for now. This is not untypical of a couple's attempt to join together and address their money matters. Each brings to the table their own desires, their own perspectives of money, its use, and is usefulness. And in bringing two different views and trying to weave their differences into a common fabric of mutual financial goals, the typical outcome is failure before any constructive work can be accomplished. The reason, I believe, is that money is one of the most powerful emotion provoking agents we come in contact with. This has been proven countless times in surveys from Reader's Digest to Money Magazine to Redbook and many other magazines who have published survey results that find the number one (#1) cause or source of argument, fighting and disagreement in the home is MONEY.

It is this powerful agent we call money, which I have chosen as the fundamental element of a career of study and research, work and experiment, in hopes of discovering why we give it so much authority and power in our lives, and how we can use it for our own fulfillment, rather than chasing it, abusing it, feeling guilty about it, or allowing it to become a source of great distress in our relationships.

My work has focused on three areas, which include personal finances, business finances, and investments. My belief is that we all have aspirations of a future of fulfillment, peace, and freedom of time and choice. Most of us envision roughly the same dream, just with different colors and moments. It usually involves hopes of a preferred career opportunity, a life partner, a family, leisure time, ample money to provide for our desired lifestyle, enough for the big expenses like home, autos, educations, and trips, and down the road hopefully enough to quit working one day and have enough to support a lifestyle through our later years.

So how complicated can this whole thing be really? I mean, in its simplest form, it's no more than a math problem. Then again, most of us didn't like story problems on the math test. But let's try this one, in its simplest form. Let's return to our loving couple at the breakfast table, and check in on Gus to see how he's holding up.

Gus returns to the table, with a fresh cup of coffee for each of them, having spent about 15 minutes warming up some muffins, in hopes of stalling the inevitable. But no such luck, he married a tenacious Irish girl who has a strong sense of focus in times like this. As he sits down, she lays out the first phase of attack, "ok, we have 4 credit cards which have a total balance of $9,276, with an average interest rate of 18.5%, and minimum monthly payments totaling $198. So it's costing us $143 each month in interest and we're paying down $55 a month in charges. Well that's just great, according to this we'll be out of

> credit card debt in 168 months, or about the time our first child starts high school…that is if we stop using these stupid things, and if we can afford a child."
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> She rises from the table in disgust, not being a user (or believer) in the credit cards, and now seeing for the first time the hole they've dug. Her dreams of one day staying home and raising a child (dreams she hasn't yet dared tell her friends or even Gus) seem now to be a slave to the almighty plastic. She slams one cupboard door, unable to find the sugar. Gus trying to lighten things up a bit, suggests maybe a little Bailey's might sweeten things up. Samantha is not amused.

For some of you this scenario may feel all too real, and more than a little uncomfortable. Does their situation seem hopeless? Well, at the moment, yes. But let's go back to our math problem. Let me lay out the story problem.

> Assume you have a couple, age 35 (he) and 32 (she). She makes $45,700 gross salary and he makes about $7,000 yearly in commission on his art sales. They have no kids but would like two, one in a year or so and the second when the first one is about three years old. They dream of taking one nice vacation each year, and they'd like to have their kids go to the well-regarded state university about 100 miles away. They plan on staying in this home which they love, until they retire and move to a smaller cottage by the lake they both grew up on. Their mortgage and credit cards total $875/month, taxes are $1,537/mo and other normal bills are roughly $1,700/month. The couple would like to be able to stop working at age 60 (he) and 57 (she), sell their home, and begin enjoying their dream cottage which they'll buy with the proceeds of the house sale. Calculate for this couple, how much is enough?

Simple? Not exactly. Solvable? With the right direction, I believe any couple or individual can solve this problem. The key, a manageable formula or process for tackling this problem, a step at a time. First, deal with the *known and relatively constant factors* (I hesitate to use the term "certain"), remembering that those things that remain more constant are simpler to predict into the future. For instance, their mortgage is a fixed 30 year mortgage with 20 years remaining. We then know that their mortgage payment will stay fixed at $8,124 annually for the next 20 years.

Second, deal with the *less known and more variable factors* which might include utilities, insurance premiums which change as needs change, future expected costs such as day care, children's allowances, etc. Many of these expenses will be difficult to predict, and for the more precise (those typically attracted to the finely measured margins of dentistry) the term "ball park" is a difficult concept, but very useful in financial problem solving.

Third, make allowance for the *big ticket items* which you believe will be a part of your future. These may include a home down payment, vehicles paid for with cash, large vacations or travel plans, education costs, etc.

And finally, project out into the future these needs, using the "ball park" approach when numbers seem difficult to project. <u>The worst mistake I deal with in helping people overcome their financial planning woes is the inability to "just do something" even in the absence of hard data of future needs. My best advice to anyone is, "just give it your best guesstimate today…as time passes and you get closer to that issue, you'll have a better idea of the real number."</u> The problem is, people get frustrated with the fact that financial planning is not an exacting science, in fact far from it. We are trying to guess what life will be like 20, 30, 40 years from now. We're making assumptions about inflation, growth of investments, and the rising costs of things like insurance, nursing care, education, etc.

Often a seemingly overwhelming set of circumstances to try and wrestle with, and the eventual outcome is usually, "forget it, it's too confusing, and the numbers aren't real anyway." I hear this argument all the time. The truth, my truth anyway, after almost 20 years of wrestling with these factors, is that it is a solvable problem. The equation will vary a little for everyone, but the main problem is not all that difficult. In concluding this month's issue, I'll give you a sampling of the equation I use when helping people solve the seemingly unsolvable question of "How Much Is Enough?" I'll be glad to help you on your journey, if you'd like to take this opportunity to begin solving your own financial planning "story problem". In coming issues I'll be presenting portions of the sourcebook I've spent 2 decades refining to walk people through the equation of mapping out their own financial future. It involves the techniques and tools I've used for years in evaluating and mapping a financial course for individuals and businesses.

Here's a glimpse of the process for beginning to solve the problem Gus and Samantha are coming up against. We begin with reviewing rule #1 in the stewardship process.

Rule #1: Decide to accept personal feelings as valid. If Samantha would have begun the morning with this rule in mind, it would have been easier to refrain from confronting Gus about his desire to travel the world. If she could have worked through the process, remembering her own desires to get out of debt and plan for a future of children and not working, she may have been able to weave in these desires and keep Gus feeling like his feelings were worthy of consideration. The process may have kept a much higher level of energy had this rule been followed. This does not mean Gus may get to travel at will, or that Samantha may get to quit her job next month. It does mean that keeping this rule in mind will allow the process to work itself through and each person will have the opportunity to clarify their own feelings, clarify their collective dreams and prioritize their combined desires. It brings in a great degree of collaboration and greatly reduces the level of conflict.

Rule #2: Remember the bigger picture: If Samantha and Gus were each given the opportunity to express their dreams for the future, Gus would allow himself to say that what he really wants to do is give up his painting and return to a career in carpentry, which he grew up doing in the summers and would like to return to. Because he's been labeled "an artist" and much of his personality is tied to that label, he's a little fearful what his friends and family would think of him being a carpenter. This discussion may allow Samantha to voice her dream to be a mom and be at home with her children for the early years. The outcome of which might be a well-directed plan to phase out Samantha's income requirement and replace it with Gus's, allowing each to realize their dream and move forward in the "bigger picture" of fulfillment.

I'll save rules 3, 4, and 5 for later. They fill in important pieces to the puzzle we create when we begin to unravel our own personal and professional dreams. Let me conclude with a brief response to the earlier math problem. It's really not all that difficult to solve. You see, if you can write down a few simple answers to a few specific questions, you're half way home to solving the whole problem. Here are a few of the questions to ponder. When will we have children? When will they be in college? When will we quit working? When will our house be paid off? When will we need new vehicles? When will we be totally out of debt? How much do we have left after our bills, debt and taxes are paid? Is it enough to fund our future plans?

The other half is filling in the harder question…"How Much Is Enough?" And herein lies the challenge…of a lifetime. (Break it down into smaller pieces, and you'll have more time left to play.)

Remember…Life's short…plan well.