

CHAPTER 1

Meet Your Neighbors

M*oving Up to Millions* offers you a multidimensional opportunity to create financial strategies that are unique to your own circumstances. In moving toward a goal of financial independence and millionaire wealth, you will have the opportunity to call on multiple resources. You will learn by completing financial exercises; reading the profiles of individuals and families—from union workers to top executives—who have met the challenges of becoming millionaires; drawing on the resources of hyperlinks and Web-based informational sources to gain knowledge; and making your own financial plan using the Life Calculator. You will become an active participant on your journey to multimillionaire status.

Life profiles of Americans are re-created throughout this book by 10 hypothetical families and individuals whose experiences may mirror your own or that of your neighbors. (On the Life Calculator Web site, www.LifeCalculator.Net, additional profiles are available, enabling you to identify with those individuals or families facing challenges similar to your own.) In reading the financial challenges they face and their responses to life events, you will be educated to various financial strategies that you can employ in your own life to mitigate negative events and to maximize opportunities. You will be encouraged to engage in appropriate financial responses to advance your own personal agenda.

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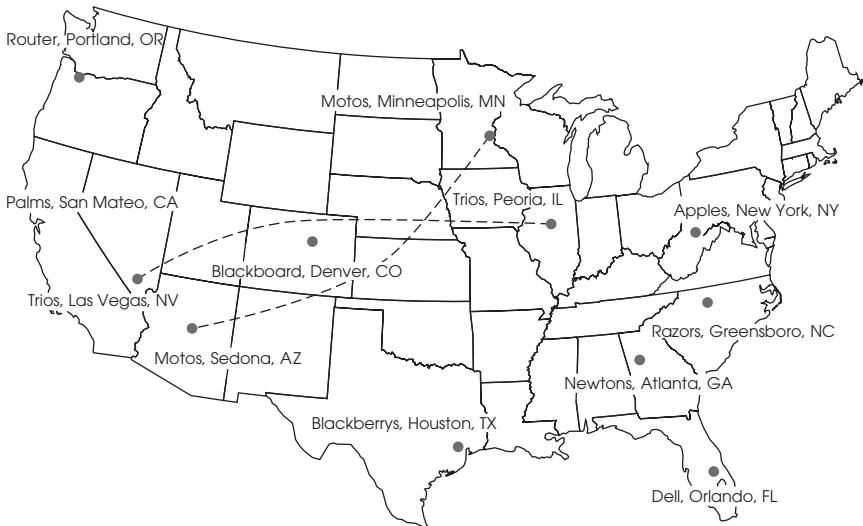


Figure 1.1 Life Calculator Profiles

Profiles are described for people who are in their 40s up to people in their 70s. Figure 1.1 shows the 10 Life Calculator profiles that represent a range of incomes from \$42,000 to \$225,000, with career fields as varied as nursing, clinical research, hospitality services, teaching, construction, law enforcement, advertising, law, bioscience, real-estate, and technology.

These Life Calculator profiles, seven couples and three individuals, have encountered personal challenges ranging from divorce, disability, loss of jobs, volatile income, unreimbursed healthcare costs, unfunded pensions, caregiving of parents, and investment losses. In response, they have proven resilient by identifying successful second careers, taking care of aging families in their own home, restructuring investment portfolios following major losses, recovering from serious injury, finding cost-saving methods of financing college, and regaining financial stability following costly divorces.

Life Calculator Profiles

Vivian Blackboard—Denver, Colorado. Age 40, divorced, income of \$89,000.

Vivian was recently promoted to the position of executive director of a nonprofit healthcare organization. She is in the process of adopting a child and purchasing a home.

Challenges: She has past poor credit due to excessive consumer debt remaining from marriage, a lack of a pension, and final payments on a mid-career MBA loan.

Marla and Bill Newton—Atlanta, Georgia. Ages 46 and 48, 10-year-old twins. Marla earns \$55,000 and Bill earns \$115,000, including a bonus.

Marla and Bill were entrepreneurs with uncertain cash flows that made them rethink their careers. They left their entrepreneurial positions to become a high school guidance counselor and coach and a real-estate manager.

Challenges: They have volatile income, lack of a pension, child-care expenses, aging parents, and uninsured healthcare/therapy costs for child injured in ski accident.

James and Nancy Razor—Greensboro, North Carolina. Ages 43 and 40, two children, ages 6 and 2. James earns \$62,000 and Nancy earns \$75,000.

James is a policeman; Nancy is a public attorney. Their income growth is limited, but they have strong retirement security.

Challenges: Cash-flow pressure, care of an aging parent, and college expenses for their children are all concerns.

Dan and Christina Apple—New York, New York. Ages 53 and 35. Dan earns \$225,000. (Christina earns a beginning salary of \$42,000 a year after completing her college education.) Dan has two teenagers from his first marriage; Christina just had a baby.

He is a marketing professional rebuilding his personal finances after poor life decisions.

Challenges: Dan is recently divorced, has expensive child support obligations, and has suffered serious investment losses. Dan and Christina are a new family with a baby.

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Eric Router—Portland, Oregon. Age 50, single, earning \$100,000. Eric is an outdoor enthusiast, active in the local art community, who values the flexibility of his freelance real estate appraisal role.

Challenges: Real estate investment losses, litigation costs with tenants, and no health insurance have cautioned Eric to be more conservative in his finances.

Jack and Cindy Palm—San Mateo, California. Ages 56 and 49, with three teenagers. Jack, a computer technology executive, lost his \$250,000 salaried job due to offshoring of his position to India. After extended unemployment and only temporary consulting jobs, he accepted a permanent job at \$160,000.

The Palms have an expensive lifestyle to maintain, with private schools and club memberships.

Challenges: The Palms must adjust to three years of unemployment, career reeducation expenses, downsizing family budget by \$90,000 to fit new salary, and financing college for three children.

Adriana Dell—Orlando, Florida. Age 61, son in early 20s, earning \$60,000.

Adriana is a divorced single parent. She is an emergency room nurse with good benefits and a secure retirement.

Challenges: Divorced at age 51, she had a low savings rate, no pension, and a limited investment portfolio.

Ken and Mary Blackberry—Houston, Texas. Ages 60 and 54, Both had prior marriages and now have a blended family of four children, two still in college. Ken and Mary are displaced Enron professionals who relocated to secure employment. Ken earns \$95,000 and Mary earns \$104,000 in their second careers.

Challenges: Double job losses in their 50s and loss of pensions require the Blackberrys to start over in saving for retirement. They need to contribute to their children's college education.

Hank and Trudy Trio—Peoria, Illinois. Ages 76 and 71, with 5 children, 17 grandchildren. Prior to retirement, Hank earned \$75,000 and Trudy earned \$47,000.

The Trios just moved to Las Vegas, Nevada. They were in the construction and hospitality industries.

Challenges: Reality of caring for three aging parents, rebuilding retirement accounts drained by healthcare expenses, and delayed retirement. Worked an additional five years.

Peter and Betty Moto—Minneapolis, Minnesota. Ages 76 and 75, with four children. Peter had \$200,000 income prior to retirement. They recently moved to Sedona, Arizona.

He is a bioengineer with stock options; prior employment as college professor.

Challenges: Three years of hospital and rehabilitation expenses for uninsured, injured son has depleted retirement savings; they have a trust fund for second son, who has autism.

Moving Up to Millions

The families in the 10 profiles examined work hard to achieve their personal dreams. Each family encounters setbacks that challenge its ability to reach goals; and each adopts new strategies to regain financial security. Whether they work in blue-collar jobs, own their own businesses, or serve in high-professional positions, all of the people who are profiled hope to become millionaires or multimillionaires. If they have already achieved the status of a seven-figure net worth, their goal will be to maintain that status and seek opportunities to further expand their financial assets.

A millionaire is defined as someone whose total net worth exceeds the seven-figure range, including all financial assets: their personal residence; all investments; the value of all defined benefits, 401(k)s, and other retirement assets; and all savings. Millionaire status is based on the projected appreciation value of an individual or couple's assets with a total net worth value determined at the time of their expected retirement. Appreciation factors related to each asset category are available for your review in the profiles section in Chapters 8 and 9.

You, Too, Can Be a Millionaire!

What financial factors must be present to enable an individual earning \$60,000 a year, or a family earning \$122,000, to become millionaires? Is that really a possibility? Yes, as Adriana Dell, a nurse; Vivian Blackboard, a nonprofit executive; Hank and Trudy Trio, union workers; and Bill and Marla Newton, a high school guidance counselor and real-estate executive, confirm! All of them have assets over a million dollars at the time of their retirement.

If multimillionaire status is your goal, what factors beyond income assure you of reaching that status? As you read through this book, you will be given specific tips on investments, second careers, protecting against financial loss, benefit-rich jobs, and maximizing the value of your home investment, which will guide you on your financial journey to multimillionaire status. James and Nancy Razor, a police officer and a public attorney; Eric Router, a real-estate appraiser; Dan and Christina Apple, an advertising executive and a lab technician, all have achieved multimillionaire status, with assets valued between \$2 million and \$3 million.

Achieving a higher level of financial wealth, having accumulated over \$3 million in riches, are Peter and Betty Moto, a bioscience executive and an arts enthusiast; Jack and Cindy Palm, a technology manager and stay-at-home mother; and Mary and Ken Blackberry, a CPA and an adjunct professor/consultant. The Motos and the Palms both benefited from generous stock options, while the Blackberrys leveraged the sale of an expensive home and a downsized lifestyle to regain financial success following their double job/pension losses at Enron.

How do you make a million dollars? Many of you may have already experienced the triumph of a seven-figure bottom line, and some of you are eager to seek the status of a \$3 million net worth or beyond. Having read the diverse strategies adopted by the hypothetical households, both individuals and couples, you may be surprised that they, like yourself, are still evaluating financial strategies and seeking additional financial knowledge. Their use of the tools in the Life Calculator improves their financial sophistication, preparing them

to make the best decisions leading to greater financial security and increased wealth.

Their achievement of a million-dollar or multimillion-dollar status is not the gift of a trust fund or a parent. That is a legitimate avenue for personal wealth, but it occurs for a select number of Americans. Only one in five Americans age 43 to 61 receives an inheritance, with a typical sum of \$64,000.¹ It is not wise to assume, unless you are certain of a windfall, that any such gift of dollars will be a factor in your achieving millionaire or multimillionaire status.

Rather, the strategies for becoming a millionaire are simple:

- Earn significant income that, when invested, can catapult you to millionaire status.
- Grow a million dollars or more through a diversified investment plan over a 20- to 30-year period.
- Purchase a home(s) that enjoys the benefits of appreciation over a 30-year period.
- Work in a benefit-rich job that provides generous healthcare and pension support.
- Leverage employer-provided benefits, investing to the maximum limit for employer-matched savings.
- Adopt a sound risk-management strategy incorporating appropriate health, long-term care, disability, and life insurance policies.
- Educate members of your immediate family on the importance of appropriate age-related insurance, reducing the probability that their uninsured status will burden you with financial costs.
- Win a national or state lottery—just joking!

Realistically, millionaire or multimillionaire status is the result of sound financial practices (living within your means and developing realistic savings goals); careers typified by hard work and superior performance; investing in real estate; protecting against the downside of adverse events through risk management; and leveraging the power of time and its associated compounding effects in a diversified investment strategy. Time is indeed your greatest ally in the journey to millionaire status.

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Later in this chapter, the *Four Rules of Making Millions* will expand the discussion of strategies, and an in-depth review of the power of the Life Calculator in future chapters will facilitate your financial education. You will learn to track your own financial growth.

Begin now by considering your own financial situation. Apply strategies of the profiled families to your own life circumstances. By completing the following Life Calculator exercise, you may begin the positive steps to millionaire status.

Life Calculator Exercise ONE: You, Too, Can Be a Millionaire!

Connect to www.LifeCalculator.Net to create the scenarios under which you, too, can be a millionaire!

Not All Millionaires Are Equal

Although all 10 profiled families included in this book have worked hard to achieve their financial security and also their millionaire status, there is a significant difference in their net worth, ranging from a low of the Trios, a nonprofessional couple with barely a \$1 million estate, to a high of \$4.7 million for a Silicon Valley–based tech executive and his family. These millionaires would all view themselves as middle class, though with significantly different status, lifestyle, and financial security. The millionaires' wealth falls into three groups.

Bronze-Medal Millionaires (\$1 Million to \$2 Million)

Those having \$1 million to \$2 million are typically known as the *Bronze-Medal Millionaires*. This group is composed of four families: one, a nurse; two, a CPA; three, a married couple with a school counselor and a mid-level corporate executive; four, a union household with a construction foreman and a hospitality worker.

The Trios are fortunate to both have defined-benefit plans together valued at roughly half a million dollars, which at net present value for their extended longevity, estimated at a minimum

Table 1.1 One-Million-Dollar Status: Bronze Medal Millionaire

Family	401(k) Savings	Present Value of Defined Benefits	Home Value	Total Net Worth
Blackboard	\$418,000	X	\$780,000 ^a	\$1.2 million
Trios	\$122,110	\$588,028 ^b	\$500,000	\$1.2 million
Dell	\$470,000	X	\$602,000 ^c	\$1.1 million
Newtons	\$760,000	\$475,130 ^d	\$525,000	\$1.8 million

Notes:

^a Home appreciates over a period of 30 years.

^b Net present value of \$52,500 (Hank) for 15 years and \$32,900 for 18 years (Trudy) discounted at 5 percent. The number of years is the difference from retirement age to age 85.

^c \$450,000 home value at age 60, appreciating 6 percent over 5 years.

^d Net present value of \$38,130 for 20 years discounted at 5 percent.

of 85 years, adds significantly to the increase in their net worth. Hank Trio used his construction skills to build a well-designed five-bedroom home, which he sold in the appreciating market. Without the value of the defined benefits and home, the Trios would have a much-reduced estate.

The Newtons, former entrepreneurs, intentionally redirected their careers to employment opportunities with secure income and generous benefits. Marla specifically chose her job as a public high school guidance counselor and coach, as its hours coincided with that of her children's school day, saving the Newtons over \$30,000 annually in childcare expenses. Bill Newton's employer-matched savings program complemented his wife's defined-benefit plan, and both contributed importantly to their economic security.

The two single women profiled, Adriana Dell and Vivian Blackboard, achieved millionaire status due to the rapid appreciation of their home residences and the value of their employer-matched savings programs, which both were diligent in maximizing.

Table 1.1 presents a comparison of the four families.

Silver-Medal Millionaires (\$2 Million to \$3 Million)

Those households having a net worth of \$2 million to \$3 million, known as silver-medal millionaires, are increasingly frequent, given

the excessive home appreciation cycle during the past decade. For most Americans at this net worth level, the personal residence represents 40 percent of their assets. Appreciation in many housing markets has created a cohort of households whose property values grant them automatic millionaire status.

For the Apples, more than half of their net worth was created from the value of their home. However, in order to enjoy the benefits of their home value, the Apples will have to consider a strategy that would result in the sale of their home and the purchase of a less-expensive downsized residence, freeing up assets that can be reallocated to a more diverse portfolio that reflects their personal preferences regarding risk and liquidity.

The Razors' promotion to silver-medal millionaire status was a direct result of their employer pension plans, which comprised a large percentage of their final retirement wealth. They were also able to retire at age 55 from their public-sector jobs, enabling them to begin second careers, receiving valuable income while still collecting their generous public-sector defined-benefit pensions.

Eric Router, a single professional man, credits his aggressive real estate investing activities for his significant wealth. Ironically, that investment style exposed Eric to a high level of risk in an investment arena characterized by cyclical returns. He reconsiders his willingness to continue on a path of high-risk behavior and reallocates his \$500,000 investment portfolio to a diversified stock, bonds, and mutual fund portfolio, while still owning a few selected real estate assets. Router also recognizes that he has not had to pay the significant costs of raising children, saving himself the substantial expense of \$300,000 to \$500,000, the amount it would take to raise a middle-class child from birth through college graduation.*

Comparisons of the silver-medal millionaires are presented in Table 1.2.

*It requires \$284,460 to raise a child in urban areas in the West. Private college tuition estimated at \$160,000 to \$180,000. The costs would be higher if child attended a private high school. MSN Money Staff, "The Basics: Raising your quarter-million dollar baby," MSN citing USDA study, Retrieved from: <http://moneycentral.msn.com/content/CollegeandFamily/Raisekids/P37245.asp>

Table 1.2 Two-Million-Dollar Status: Silver Medal Millionaires

Family	401(k) Savings	Investments	Present Value of Defined Benefits	Home Value ^a	Total Net Worth
Router	X	\$1.7 million ^a	X	\$520,000	\$2.2 million
Razors	\$1.1 million	X	\$928,090 ^b	\$300,000	\$2.3 million
Apples	\$1.2 million	X	N/A ^c	\$1.6 million	\$2.8 million

Notes:

^a \$650,000 compounded at 6 percent for 15 years. He originally had \$850,000, but lost approximately \$200,000 due to adverse events.

^b Net present value of \$89,415 for 15 years discounted at 5 percent.

^c No assets in this category.

Gold-Medal Millionaires (\$3 Million+)

The three highest-ranked multimillionaires profiled in this book, those having \$3 million and above, are identified as gold-medal millionaires. Ken and Mary Blackberry, Peter and Betty Moto, and Jack and Cindy Palm achieve the impressive rank of gold-medal millionaires through entirely different avenues of wealth appreciation.

The Blackberrys, fired from their management positions at Enron, were able to finance their mid-career job changes due to the \$700,000 net proceeds from the sale of their expensive Houston home. They made an important tactical decision: they relocated to the less expensive city of Austin and chose to buy a smaller home, placing \$500,000 of their \$700,000 home profit in an investment account, which grew substantially, together with their employer-matched contributions from their second career jobs.

Peter and Betty Moto benefited from the generous stock options Peter received as a biotech executive. Those options, together with the \$1.4 million net profit of their home,* helped compensate for the \$500,000 medical costs they paid to support their son's multiyear recovery from a near-fatal car accident. Peter Moto's willingness to

*Net home profit in this context is the amount remaining after payment of capital gains taxes and all commissions and fees related to the sale of the home or property.

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work beyond his early expected retirement provided additional income that enabled them to enjoy a comfortable, though delayed, retirement in Sedona, Arizona.

The Palms' route to gold-medal status was based on Jack Palm's employment in two pre-IPO Silicon Valley companies that netted him significant options when they both went public. The appreciation of those options served as the basis of his personal wealth.

Jack regrets that soon after his second company went public, he lost his well-compensated position, due to offshoring the functions

Table 1.3 Three-Million-Dollar Status: Gold Medal Millionaire

Family	401(k) Savings	Stock Options	Present Value of Defined Benefits	Home Value	Total Net Worth
Blackberrys	\$1.6 million	X	\$701,760 ^a	\$812,030	\$3.1 million
Motos	\$722,000	\$700,000	\$872,354 ^b	\$1.4 million	\$3.7 million
Palms	\$1.4 million	\$500,000	X	\$2.8 million	\$4.7 million

Note:

^a Net present value of \$67,610 for 15 years discounted at 5 percent.

^b Net present value of \$70,000 for 20 years discounted at 5 percent.

Table 1.4 Summary of Salaries and Assets of Profiles

Name(s)	Salaries	Total Assets
Adriana Dell	\$60,000	\$1.1 million
Hank and Trudy Trio	\$75,000/\$47,000	\$1.2 million
Vivian Blackboard	\$89,000	\$1.2 million
Bill and Marla Newton	\$115,000/\$55,000	\$1.8 million
Silver-Medal Millionaires		
Eric Router	\$100,000	\$2.2 million
James and Nancy Razor	\$62,000	\$2.3 million
Dan and Cindy Apple	\$225,000/\$42,000	\$2.8 million
Gold-Medal Millionaires		
Ken and Mary Blackberry	\$95,000/\$104,000	\$3.1 million
Peter and Betty Moto	\$200,000	\$3.7 million
Jack and Cindy Palm	\$160,000	\$4.7 million

to India. Jack was unable to secure a similar position in the industry, despite his credentials and active career search spanning a period of three years. He suffered three years of unemployment before taking a job at a salary of \$160,000, but with an employer-matched savings program. The Palms are on the road to recovery!

See Table 1.3 to review the Gold-Medal Millionaires. See Table 1.4 for a summary of all three classifications.

Do You Really Need a Million Dollars?

Absolutely! A million-dollar lifestyle in 2007 is not a portrayal of a life of greed and wanton excess. Rather, it affords an individual or couple a reasonable lifestyle where they are financially independent and empowered to achieve their life goals. Recognizing the responsibilities of the club-sandwich generation and extended longevity of most Americans, achieving a millionaire or multimillionaire status simply helps ensure that your retirement will be characterized by comfort and security.

Fill in the blanks in Table 1.5. How many of the items have the power to erode your financial security? Total the costs associated

Table 1.5 Budgeting Your Million Dollars: Sizing Up Your Personal Expenses

One-time Costs		
Item	Sample Value	Your Value
Buying a second vacation home or moving up	\$400,000–\$2,000,000	
Net worth loss through divorce	\$25,000–\$250,000	
Healthcare costs not paid for by insurance (over 25-year period)	\$200,000–\$300,000 (low)	
	\$300,000–\$400,000 (medium)	
	\$400,000–\$500,000 (high)	
Disability	\$50,000–\$300,000	
Underfunded pension	\$200,000–\$300,000	

(continued)

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Table 1.5 Continued

Item	Sample Value	Your Value
Emergency fund for family expenses	3 months' salary	
Extended longevity (living to 90)	\$100,000–\$200,000	
Extended longevity (living to 95)	\$200,000–\$300,000	
Supplemental financial support for “boomerang” children (children over 21 years of age returning home)	\$5,000–\$25,000	
Subtotal		
Postretirement Costs (Assume for a Period of 20 Years)		
Car purchase	\$25,000–\$60,000/ car (usually 3 to 6 cars over 20 years)	
Personal care of an aging parent in your home	\$7,000/year × Number of years (identify years of care-giving support)	
Assisted-living residence for one person	\$70,000–\$80,000/year (Number of people × Number of years)	
Volatile investment losses ^a	\$10,000–\$20,000/year (Assume no more than 1, 2, or 3 years)	
Hyperinflation ^b	\$1,500–\$3,000/year (Assume 1, 2, or 3 years)	
Your Subtotal		
Total Up Your Costs		
One-time costs		
Annual postretirement costs		
Total		

Notes:

^a 4 percent loss on a portfolio of \$250,000–\$500,000.

^b 3 percent loss in purchasing power of \$50,000–\$100,000.

with your selection. Note the difference between one-time costs and ongoing expenses.

Do your potential expenses surprise you? Whether you are beginning your pursuit of \$1 million status, have achieved a seven-figure net worth, or are strategizing to leverage your multimillionaire status to further wealth increases, you may not have anticipated how quickly your million dollars will be spent on these nonbudgeted items, many of which are not within your control.

Advanced planning can substantially reduce many of these costs. The advice in this book and its accompanying Life Calculator software could save readers as much as \$250,000, if you are responsive to the information and take the necessary action to mitigate against potential costs. See Table 1.6.

Table 1.6 Typical Life Calculator Savings

Event	Amount	Savings Tool
Assisted living or nursing home care	\$300,000	Long-term care insurance: Purchase at age 55
Disability	\$50,000–\$300,000	Disability insurance: Purchase in 60s, if high risk: personal history of stroke, diabetes, hypertension, heart attack, cancer, or Alzheimer’s
Extended longevity (living to 90)	\$100,000–\$200,000	Annuities or retirement savings ^a
Extended longevity (living to 95)	\$200,000–\$300,000	Annuities or retirement savings
Uninsured healthcare costs	\$200,000–\$500,000	Healthcare or catastrophic insurance
Death of wage earner	Salary over term of working life	Life insurance: 6 to 10 times annual salary

Note:

^aMax out your 401(k) Plan or 403(b) Plan for \$15,500 a year. If older than 50, add an extra \$5,000 annually.

Life Calculator Exercise TWO: The Value of the Life Calculator

The dollar value the Life Calculator derives from its ability to help you measure the effect of strategies that mitigate the cost of adverse events that affect your balance sheet. By recognizing these effects, you will be able to choose your actions and reduce those costs. The totaled costs in Table 1.5 will be the personal value of the Life Calculator for you.

With the right amount of determination, financial expertise, and hard work, you, too, can become a millionaire. However, as you saw previously, \$1 million can quickly disappear, along with your dream of financial independence and security.

The following chapters will educate you in the new risks that you face today, the areas in which you are exposed financially, and the effects that these risks will have on your balance sheet. This book will educate you on strategies, provide technical financial planning tools, and, through the Life Calculator software and Web site, create an environment that encourages you to take the steps necessary to make your millions—and keep them.

The Four Rules of Making Millions

A smart fiscal strategy requires a defined purpose and an accurate assessment of assets and liabilities. You must have a willingness to perform a comprehensive fiscal checkup exposing your financial vulnerability: your savings gap, poor spending habits, failure to protect against downside risk, and ill-timed investment decisions.

Getting a clear view of your future is a start to financial security. Current financial planning books either are written from a policy perspective, documenting in painful statistical detail the decline of economic security, or are cheerleading versions purporting to teach you how to earn millions through various investment schemes.

Moving Up to Millions: The Life Calculator Guide to Building Wealth is a hybrid. It provides a path to personal wealth through over

100 interesting, conversation-stopping facts and 20 Life Calculator exercises by fully integrating the answers to each exercise into a comprehensive financial plan.

The reader will be exposed to 10 hypothetical profiles discussing the challenges of individuals and families from different ages ranging from the decades of the 40s to the 70s. This highly interactive approach guarantees that you can create a winning game plan to secure your financial future and to, perhaps, even earn those millions of dollars, if you take the actions necessary to overcome life's adverse financial events. Through the sophisticated yet easy-to-use digital financial engine you will be in charge of creating an unlimited number of personalized, real-time what-if? scenarios that will optimize your financial success.

The Life Calculator is built on the basic assumption that controlling risk is vital to financial security. There are Four Rules to Financial Success.

Rule #1: Own Your Future

When Enron went bankrupt, Ken and Mary Blackberry, both employed in high-level financial positions, lost not only their jobs, but also their pensions. Not that anyone cared enough to help. It has become a sadly accepted fact that promises made to management are more important than those made to workers. Being older workers (Ken was 60 and Mary was 54), the Blackberrys had little time left to recover their pension losses, but they were not deterred. They quickly adapted, selling their expensive home in Houston and moving to Austin, where housing and living expenses were substantially cheaper. Mary Blackberry went to work as a CPA for a state agency. Ken now serves as a financial consultant. Both have adopted the attitude that their future is their own responsibility.

Hank and Trudy Trio are similarly making it on their own. Both union workers, the Trios were accustomed to self-reliance, hard work, and long hours. Trudy was employed in the hospitality industry, while Hank worked in construction. While raising five children, they carefully budgeted and managed to save for their retirement, take care of their aging parents, and set up a health savings account to serve as a resource for Trudy's diabetic care. They were fortunate

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to have the live-in support of Trudy's mother, saving the expenses of child care that would have otherwise been prohibitive and would have prevented Trudy from bringing in a second income.

The Trios and the Blackberrys are symbolic of Rule #1: Own Your Future, recognizing that neither employers nor government may provide the expected degree of support. Take the lead role in managing your balance sheet, creating a plan to protect against a multitude of adverse events that may impact your future.

Rule #2: Focus on Reducing Risk

Eric Router, a real estate appraiser from Portland, Oregon, is employed on contract by a large real estate brokerage company to appraise estates, apartments, and small commercial buildings. Eric is proud of his real estate knowledge and has leveraged it to purchase a series of single-family homes and a small eight-unit apartment building, all at substantial market discounts due to bankruptcy sales. Router made attractive returns on his real estate portfolio until he encountered three unexpected issues:

1. A drop in residential values in a neighborhood due to recently announced highway construction
2. Litigation costs with tenants regarding damaged personal property due to leakage from recent storms
3. A drop in values in his overall portfolio leading to a highly leveraged position

Router's personal life was marked by recent unfunded healthcare costs for emergency room treatment following a serious rock-climbing accident and a knee injury some years earlier. Prior to this medical incident, he had always been in outstanding health and was a mountain climber, marathon runner, and downhill skier. He had chosen not to purchase healthcare insurance, gambling that the \$4,000 to \$7,000 annual payment for healthcare premiums was better spent invested in his real estate transactions. Subsequent to his real estate losses and medical costs, Router has reduced his risk by rebalancing his portfolio, purchasing alumni healthcare insurance

from his university program, and selling selected real estate properties to invest the proceeds in mutual funds and conservative blue-chip stocks.

Marla and Bill Newton, former entrepreneurs from Atlanta, Georgia, have experience in reducing their risk. Marla determined to stay at home with their children, while Bill engaged in entrepreneurial activity, forming a real estate investment trust (REIT) with his brother. Bill discovered, as an aspiring entrepreneur, that while his compensation might be significantly higher than a salaried position, the income volatility was also higher. Seeking to build a consistent stream of income, Bill became employed as a real estate manager for a large corporation and Marla transitioned to employment as a guidance counselor for a local high school. Both Bill and Marla enjoy the healthcare insurance and pension benefits of their new positions.

Reducing risk was more important than maximizing return to both Router and the Newtons. The Newtons reduced their risk by taking jobs with employer-provided pensions and healthcare, and Router reduced his risk by purchasing healthcare insurance and diversifying his portfolio into equity, bonds, and mutual funds. Both sets of decisions are wise, recognizing the importance of managing risk over maximizing return.

Life Calculator Exercise THREE: Risk Management

Analyze the impact of a 2 percent higher return on your portfolio. Would a 2 percent return provide sufficient savings to finance the two most likely adverse events that will occur over the next 10 years of your life? Please note the adverse events table in Chapter 3 and log on to www.LifeCalculator.Net, following the link on the Risk Management Exercise.

Rule #3: Make Time Your Ally

Adriana Dell is a nurse who discovered, after her divorce, why women are the most likely to be impoverished. Adriana had no retirement savings and, with her small income, no hope of building a sizable

nest egg. However, as a nurse, she did have one advantage over most workers. Her healthcare costs, usually one of the largest costs for older workers, were relatively low because of her employment. After considering alternative employers, Dell joined a hospital chain that offered an employer-matched savings plan. The growth of her savings, doubled by her employer match, helped to ensure her financial security, making time her ally.

Peter and Betty Moto were well on their way to achieving their financial goals when disaster occurred. Their 23-year-old uninsured son was involved in a car accident, necessitating enormous hospital bills and three years of costly rehabilitation. However, the Motos had always been prudent in their financial practices, investing the maximum allowable in their employer-matched savings program. At the time of their son's injury, they were able to divert a portion of their personal savings into an emergency fund to support his care and recovery.

The Motos had carefully planned for over two decades for early retirement, which they now sacrificed to ensure the highest-quality medical care for their son. By maintaining a safety margin in their personal finances, the Motos had ultimate financial flexibility in meeting unexpected adverse events. With Peter's willingness to work an extended period beyond his retirement, the Motos were able to replace much of their personal savings.

Delaying financial planning with the expectation of a future windfall, a salary increase, or even an inheritance that will magically erase your savings gap will leave you at a substantial time disadvantage. Time is an ally, if you take the actions to protect against the negative outcomes of adverse events by buying insurance policies, by compounding long-term investments, and by delaying retirement to accumulate additional assets and in forestalling spending retirement resources.

Rule #4: Master Change

Dan Apple from New York was extremely frustrated. His previously secure finances had been exactly halved after his divorce, and,

additionally, he now had to support his new wife and child. Attempting to leverage his substantially reduced investment portfolio, he placed a significant portion into a hedge fund, only to lose over a third of it.

To recover from his reduced financial position, Dan determined to work until 70, and his young wife accepted the necessity of employment once their child was of school age. Reducing their budget, downsizing their home, and focusing on longer-term objectives rather than short-term enjoyment was a difficult transition. Their ability to master those changes will make the difference in their extended financial security.

The Palms have only recently realized the uncertainty of life. Jack Palm, a Silicon Valley programmer, has experienced two interim jobs following his unexpected dismissal from his senior position as a computer programmer. Jack returned to community college to complete a master's degree and to receive a professional certificate, valued in his field.

With his additional credentials and a willingness to accept a much-reduced salary and title, Jack has found permanent employment in a midsize company that is certain to not offshore his position. His reduced income has required the family to alter their spending, decrease the amount they can spend on college educations, and curtail purchases of expensive foreign cars and a second home.

Your life is not static. Neither is your financial plan. You must continually respond to events that occur in your life and revise your plan, if needed.

