Financial Planning

Taking Charge Of Your Own Future

BY JOEL JACKSON, CGCS

Last year I was shocked when a high profile, veteran superintendent told me he needed to get started on a real aggressive savings plan because he didn't really have anything set aside for retirement. I guess I was so taken back because this gentleman is in all respects a very organized, methodical and professional individual. It was hard to imagine that he didn't have a steady saving plan in place.

In our business, salaries and benefits come in all sorts of packages. Some of us have worked for large corporations or even clubs with built-in retirement plans with pensions or 401K plans. Others are lucky to get holidays and medical insurance. But all of us can create our own individual retirement accounts and savings accounts to start building retirement funds for the future. It does take discipline, and while the young and invincible would rather have corvettes and jet skis, they ought to be finding a way to start socking away something and let time and compounding interest be on their side.

I'm proud to say that my daughter told us one of her goals was to start her own IRA by age 25 and — bless her heart — she did. I probably wasted 20 years of interest-building savings opportunity, but I finally got on the bus before leaving Disney and took full advantage of their stock purchase plans and 401K savings plans. The following articles are food for thought about your financial future.

The Top 10 Reasons to Consider Financial Planning

Your financial aims may include funding college educations, planning a secure retirement, purchasing a new home, starting a business, minimizing taxes or any combination of these objectives.

No matter what your goals are, developing a comprehensive financial plan is one of the most important steps you can take toward achieving them. While your financial situation and objectives are unique, here are 10 of the most pertinent reasons for investors to establish a good financial plan.

1. Americans are living longer, healthier, more active lives than ever before. Many will spend nearly as much time in retirement as in their careers. If a longer, more active retirement is in your future, it is likely you will need significant financial resources.

2. The cost of higher education continues to outpace inflation at a time when the need for a higher education has never been more evident. A good financial plan can help you prepare for these costs.

3. Increasingly, Americans are required to take responsibility for their own healthcare — that may mean you'll be choosing your health care coverage options from a menu plan and funding all or part of your coverage on your own.

4. Estate taxes may consume as much as 55% of a person's estate within 90 days of his or her death. Establishing a sound financial plan can preserve a legacy for your heirs by helping to shield your assets from estate taxes.

5. A financial plan provides a complete assessment of your current financial situation—from your net worth to your cash flow and debt management practices—and identifies how you may be able to improve them.

6. Financial planning helps you take a comprehensive look forward to your future financial needs and goals, including cash flow and debt management, education funding, retirement planning, estate conservation and portfolio management.

7. A comprehensive financial plan that identifies specific strategies and opportunities for actively working toward meeting your financial objectives.

8. A financial plan can help you protect your family, business interests and investment portfolio by helping you to determine the amounts and types of insurance that may be right for you.

9. A comprehensive financial plan helps you to organize your network of professionals, including lawyers, accountants and other influential specialists and puts you in the control position.

10. As your needs, goals and financial situation change over time, a financial plan gives you the flexibility to alter your financial strategy to meet new objectives. To be effective, you and your financial advisor must weigh several factors, including your objectives and time frames, your personal investment philosophy and your tolerance for risk.

The dawn of the new millennium may be the perfect time to set up a financial plan that will help you get control of your finances for the future.

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Plan Well To Enjoy Retirement

For many working individuals, planning ahead with a simple analysis and realigning of financial priorities can mean the difference between enjoying a fruitful retirement and working well into the graying years. The first and most important step is to determine where you currently are in your overall savings activities and whether you're on track to retire at a desired age.

Generally, it's estimated that you will need at least 70 percent of your pre-retirement income to retire with your present standard of living. That figure, multiplied by the number of years you expect to be retired provides an estimate of the savings you'll need. Now add up all the funds you anticipate having access to when you retire. As you do your calculations, keep in mind that uncertainties regarding future Social Security funding, the resurgence of inflation and a longer life expectancy can have a significant impact on that dollar amount.

If you're like many working Americans, you may find your tabulations to be a little shocking… depressing even. That's because savings habits of Americans, as a group, leave much to be desired. The average American saves a mere 4 percent of gross income per year, far less than workers of other industrialized countries. Chances are you can improve your own personal savings rate with some simple adjustments in behavior. Here are a few suggestions:

Reward Yourself For Limiting Discretionary Spending - Drastically curbing discretionary spending is not practical; but chances are you can limit what you spend… by choosing to eat at a less expensive restaurant, buying a less expensive appliance, or vacationing at a less costly resort. Establish an account where you can deposit these savings each month.

Minimize Services - It's great to have someone mow your lawn, clean your house, or wash your car, but if you did these services yourself you might find substantial savings.

Refinance Your Mortgage - Lenders have become increasingly competitive for business, which means greater potential savings for you. And in light of continuing low interest rates, you should consider looking into refinancing your mortgage, especially if you haven't done so in the last two years.

Now that you've identified some new savings, what do you do with them? Here are a few more suggestions:

Maximize Participation In Your Company's 401(k) plan - Nearly one-third of eligible employees choose not to participate in a 401 (k) plan. Nearly half of 401 (k) participants do not contribute the maximum amount. Contributions are taken from your gross income - and therefore are not currently subject to federal income tax — and your contributions will grow tax-deferred. If your company doesn't have a 401(k) plan, find out why. They are now available and affordable to even the smallest organizations.

Establish an IRA - If your adjusted gross income is less than $40,000 you can make a deductible contribution up to $2,000 to an IRA (individual retirement account). Even if your adjusted gross income is greater than $40,000, you may still be able to make a nondeductible contribution to an IRA or to a Roth IRA, or under certain circumstances, a deductible contribution to an IRA. Like 401(k) plans, this money grows tax-deferred and thus can compound more quickly than other investments that are subject to tax.

Purchase an Annuity - If your income is too high to qualify for the tax advantages of a deductible IRA, you can still enjoy the benefits of tax-deferred growth through annuities.

Buy Mutual Funds using Dollar Cost Averaging - Remember the account mentioned earlier filling up with your new monthly savings? Such an account is ideal for investing in stocks, bonds or mutual funds using the dollar cost averaging method. Arrange to have a set amount of money invested in certain mutual funds, for example, at regular intervals (e.g., monthly). Regular investing, regardless of short-term market movements, can reduce the volatility of your portfolio as broad swings in the market tend to even out over time.

Specifically how you invest in these savings vehicles depends on your individual preferences and tolerance for risk versus reward. A trusted financial advisor can help you prioritize your investments in a fashion that will complement your long-term retirement objective.

What matters more than where you invest is when you start to do so. The earlier you begin the process the more likely you are to see your retirement dream come true at the age that is right for you.

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And Here Are Some Real-Life Examples

Editor's note: I sent out a request for superintendents to share their financial planning strategies and experiences. Understandably most people did not want to divulge their finances even if kept anonymous. Thanks to the following superintendents who shared their input to give you an idea of what they have done.

Veteran Superintendent

I have had a 401(k) through my employer since 1987. I contribute 6% (used to contribute 8%), which gives me maximum contribution from my employer. Employer matches my contribution 1:2 up to a maximum of 3%, plus they contribute another 3%, bringing the total to 6% based on my position and length of service, even if I contribute nothing. My contribution is automatically deducted from my paycheck making it hassle-free.

I have six different investment options: stable, balanced, growth equity, aggressive equity, small cap, and international equity. About a year ago they installed a system where I can use the phone 24/7 to access my account, moving amounts (by percentages) from one investment option to another, or changing future investment options to be deducted from my paycheck, or just checking on my totals.

Apart from this, I recently rolled over a traditional IRA account into a Roth IRA, but have made some bad investment choices rendering it almost worthless, and will now leave the investing up to the experts (so the answer to "do I invest in the stock market" is "no, not any more on my own." I do have a will.

Young Superintendent

I have invested in 401k 20% of my salary since I was able to as an assistant. I started out with the max right away so I learned to live within the 80% so that when I started making a superintendent's salary I wouldn't notice anything. I didn't want to be the one saying "I wish I would have" or "I'll start later and invest a lot" because that is a bunch of BS.

I have my investments set up pretty aggressively. 45% moderate, 50% aggressive, and 5% Dynamic (I figured I could stand to take a total loss on the 5%). I went aggressive because I have another 40 years to invest, and the market favors long-term investors.

It is just like managing a golf course. You have to be doing something all the time or you're behind. There is no place for waiting to the last minute.

Retired Superintendent

I was fortunate to have a pension plan in place with the company I worked for. However, like social security, that guaranteed amount each month is not enough alone to meet the needs for a comfortable lifestyle in the "golden years." I am not old enough to draw full social security. I work part time to stay active and involved, but I can at least cut back on my hours and the stress. I have eight more years before full retirement.

Consequently, I had a payroll deduction plan for both the credit union to have some liquid emergency funds accessible in a savings account, and I also participated in the company's 401K plan as soon as it was available. In the beginning, I made the minimum contribution that would maximize the company's matching funds formula.

Later, after we became empty nesters and expenses decreased, I upped that amount to 10% per week until my retirement. We were not aggressive savers, but we did take advantage of payroll deduction plans and we kept our cars for 8-10 years.

We also have our IRA accounts with a reputable investment company and talk regularly with our financial advisor to discuss changes and options.

My wife plans to work maybe 10 more years. She just left her old company to find a nicer work environment. She also had a 401K and some stock certificates from her old company. We have rolled over our company 401Ks into Individual Retirement Accounts. The challenge for us now on a reduced income is to still exercise some savings to keep adding to our future retirement funds.The mortgage will be paid off in two more years, which will help.

By age 65, I would estimate that we will easily have more than $250,000 to draw on in addition to pension and social security. It may not be enough to take world cruises every year but it will keep us in Geritol and pay our AARP dues.