How to Retire Young and Rich.
By Joseph Cole
Summarized by Leo Schreven

Welcome to another exciting month of financial education! I so much enjoy spending this time with you every month. Even for myself, it is a blessing to review these things that I have read for many years. The book we are going to go through this month is a classic among the financial books. It is called, "How to retire young and rich." It is by Joseph Coyle, who was the senior editor of Money magazine. It is a very practical book, and you will find a lot of helpful tools in it. So let's jump right on into it today.

Chapter 1 begins with the title, "Four things you need to do now."

First, learn to save more than you ever dreamed you could. Financial planners use the rule of thumb, that people will need about 80% of their pre-retirement income to maintain their same living standard. Then they calculate 4% inflation. For the current average American, who plans to live from age 65 to 85, with these two factors, will need to save at least $1.1 million. The challenge for most, is that the United States has one of the lowest savings rates in the world. The majority of people stay in denial of this. I meet them every day. It is one of the saddest things I deal with, to see older people who lived in denial all their lives, have come to the end and they suffer for lack of finances. But the truth is, for most of us, we could find things that we could cut out and save.

Secondly, one of the best exercises to do this is to sit down and take all of last year's bills, and all your expenses, and all the money you spent on pleasure, everything that you spent money on, and calculate how much that was. Compare that to your income. Then look at both sides and say, "what could I have lived without?" Whatever that is, discipline yourself to start saving it. Whether it is that daily coffee, clothes you seldom wore, or the cable or satellite television, - many of these things are not necessities, and by simply saving the money you spend on them, you could change your financial future.

Next, follow the rule that we have emphasized over and over again. After your tithes and offerings, pay yourself first. At least 10% of your income should be put away every month and saved. Then, don't endanger your principal. This means simply balancing your risk, so you do not lose what you have gained. We will cover more of that later on.

Last, put a safety net under your earning capacity. As downsizing continues, and we become more and more of a global economy, you have to prepare or have an escape hatch with different sources of income. Job security is no longer a given. So master these first four rules and your financial future will be a lot easier.

Chapter 2 then goes into the question, "What is the right age to retire?" This may seem an insignificant question, but it has to do with your emotions. It is a very important step, most people overlook. If you retire at let's say age 60, you still have 30 years ahead you. If you quit at age 50, you have 40 years ahead of you. Sitting around in a rocking chair doing nothing ends up being disastrous for most people. So you have three choices.

1. Retire early and keep busy.
2. Retire gradually.
3. Keep on working.

Making a decision is important for your financial security. It's really interesting to ask people, what is retirement? In the studies they have done, they find out that approximately 6 months after retirement the “vacation” ends, and reality sets in. People get tired of being on vacation and get bored. Therefore, about half of retirees work part time. With most baby boomers, not having planned adequately for their financial future, this is expected to become even more. So plan your age to retire carefully.

Chapter 3 deals about the issue of Social Security. All of you who have been listening to my tapes know this is something I have been talking about for years. The biggest problem I find is that people continue to be in total denial. The first baby boomers will turn 65 in 2011. From then until 2030 Social Security beneficiaries will add another 26 million people who will be drawing from it. But the number of workers supporting the system will stay just about flat. That is the perfect recipe for disaster.

You can start collecting Social Security age 62. But as the book brings out, if you are age 50 or under, don't plan on anything been there for you. At age 62, you only collect 80%. If you wait till age of 65, you can collect 100%. If you wait till 70 it makes a big difference, because your check goes up 8 % each year. I'm taping this in August of 2008. We are in the heat of the presidential debate with John McCain and Senator Obama. Neither one has any idea on how to fix Social Security. In fact, they're the two worst political candidates I've ever seen in my life. So my advice again is, you better plan for your own retirement, and not count on Social Security at all.

So in Chapter 4, he discusses the question, how much will you need? It is important to know exactly what your goals are, because then you will know if you are meeting them or not. So whatever age you are, if you haven't figured out how much you will need to retire, now is the time to do so. One of the best steps to begin, is to sit down and do an estimate of the income you will need to live on after you stop working. The reason this is important is because retirees almost always spend more than they think they will. The main reason for this is forgetting to calculate inflation. I look at my own parents, who retired 18 years ago. They are currently dumbfounded at the price of food, gas, electricity, insurance, property tax, etc. Many of these items have doubled in price in just the last 18 years. So do a quick survey, and write down all the items it will cost when you retire. Think of everything, and be very honest. Things like housing, food, transportation, taxes, medical and dental, clothing and personal care items, recreation, hobby and travel, support of other relatives, loans or credit card payments, life and disability insurance, utilities, property taxes, upkeep, auto maintenance, etc.

Once you face this list honestly, you can determine how much you're going to need. Let's say it's $4,000 a month. And let's say that you are 20 years away from retirement. Calculate 4% year inflation. 4% times 20 years is 80%. 80% of $4000 is $3000. So you will need at least $7,000 a month when you retire. Then you need to calculate that you are likely going to live to age 85. That's another 20 years. Calculate inflation again, and you will need an additional $3000 a month for a total of $10,000 a month by the time you reach 85. This is not a joke. Ask yourself, how many people do you know right now, who are retired and have gone back to work, because they don't have enough for gas and groceries? That will be you, unless you start to make some changes. I find that this exercise is the most difficult for people to do. I don't know why. For some reason, we just don't want to face reality. We don't want to believe it's true. It's not a problem today, so I can put it off till tomorrow.

I was recently at a camp meeting where there were a lot of retired people. I was asked to do a seminar on finances, and I had dozens of people come to me afterward in tears, stress, and hopelessness. They poured out their hearts to me, but there was nothing I could do, it was too late. They will work till the day they die, and only achieve survival. Had they planned carefully, their retirement would be happy and secure.

Okay, let's talk now about how to invest for your future. The book discusses the typical three types of portfolios. When you're 30 to 40 years old, to have a more aggressive portfolio with things like large company stocks, mid-cap stocks, small-cap stocks, international stocks, and some corporate and international bonds. The second portfolio recommended for your 30s and 40s would be more of an asset mix of large company stocks, mid-cap stocks, small company stocks, international stocks, intermediate treasuries, and international bonds. The third portfolio from your 50s to your 60s, becomes more conservative, with lower percentages in large-cap stocks, mid-cap stocks, small-company stocks, international stocks, municipal bonds, and treasury notes.

The challenge with the typical portfolio, is that everything has changed so much in the last few years. Therefore this strategy is not near as effective as it used to be. There are so many reasons for this. All the rules that used to apply even a few years ago, simply do not apply today. North America is no longer the world dominating force. Global economy has changed everything. The information age and technical revolution have changed everything, and the changes are happening quicker and quicker each year. For example, the book still talks about the advantages of buying and holding stocks for the long term. There is still some truth to this. But it is quite rare, because there is no such thing as a dominant company lasting for 30 years anymore. Until the mid-90s, this was still possible. But today the strongest company can be reduced to ashes in a matter of a few days by global competition. One only has to look at the newspaper and see major companies like Ford, GM, and even strong industries like Boeing receiving stiff competition from other aircraft builders, or car makers. On top of this, look how the market swings back and forth year to year. Compare that to the 70s and 80s and even early 90s. Everything just plodded along. It was predictable. Everything was based on price and earnings. Everything ran on numbers. The wild gyrations of the market on an almost daily basis makes buying and holding for the long term impossible. One has to be more nimble today, and know when the market peaks and try to sell at the peak, and buy again when it hits a low point.

For this reason, I still favor mutual funds, because your money is diversified with more than one company. If you can wisely pick mutual funds, and sectors of growth that will do well, you can still make good money. An example was the last few years. When everything was very volatile, oil and gas were going up very steady. Gold was going up very steady. So if you had been in four or five energy funds, or four or five gold funds, you would have done really well. You can apply this same strategy to growth funds looking at the sectors that have real potential for growth. I really encourage people in our All Power program to take some time every year and get the Morning Star mutual fund guide. This lists all the mutual funds that are available, and you can choose sectors that have the potential to make money in the days ahead. Look for the ones in a very good track records, and choose two or three of those, and you seldom go wrong.

You may say, Leo, can you give me some examples? Let's do it right now. It is the year 2008 in August. Looking at trends, I can tell you the biggest trend for the next presidency is going to be, "go green." Alternative fuels, solar, fuel cells, bio diesel,- this is all the rage of the future. I don't agree with 95% of the liberal environmental nut cases who are pushing this agenda, but it is still the trend of the future, so I will look for companies and mutual funds that are heavily invested in this. Another area is housing. The market has corrected at least 30 to 40%, and there are some fantastic bargains out there right now. So choose, a couple of real estate funds very carefully. Remember that every crisis is an opportunity. All these banks that are going belly up. Pick some of the strongest ones that have been hit, because you know they're going to come back up again. By following this strategy you can regulate your risk and do well.

The book then continues with getting the most out of your savings plan. Again, we discuss much of this in our 60 day program, but let's do a quick review. It discusses the advantages of the 401(k) plan, or 403 b if you work for a nonprofit organization. Especially if you have a company matching plan, this is still one of the best ways to save for your future. So I encourage you to max out your 401(k). Contribute as much as you can. This is another benefit of a home-based business. You can add more than one 401(k). You could be working for an employer and have a 401(k) setup that you contribute to every month, plus you can add your own home-based business and set up another one for you and your spouse. I feel like I'm preaching to the choir sometimes, but if you're sitting and listening to this, and you have not opened her own home-based business, then you need to get off your duff and open home business today! I have a paper you can request that lists the top four home-based businesses I would recommend. They are Mannatech, a health and supplement company. Isagenix, a weight-loss specialty company. YTB, a great travel agent business, and UFirst financial, the company that takes your existing mortgage and cuts it two thirds. If you want more information, e-mail me at allpowerseminar@cs.com and I can send you this paper.

The book also talks about getting the right kind of financial help. It is interesting to read this chapter from my 1996 edition 12 years ago. So much again has changed! In a nutshell, until the early 90s, very few people invested. With the invention of the Internet, suddenly hundreds of investing companies popped up and nearly a billion people in four years, became investors. So it is impossible in most circumstances, to get anyone who can give you solid financial advice. Most financial planners are trained in a school in a few weeks, hired by companies, and they have less sense than you do in most cases. I can't tell you how many meetings I have been in teaching finances, and I get challenged by a financial planner, who says that what I am teaching is not true. In every case, without exception I have shown the person the IRS code, or tax codes, or investing rules, and they sit dumbfounded saying ," I never even knew you could do all that! Now I am not being critical, it's just that I know more than every financial planner I've ever met so I am skeptical. To most financial planners you're just another number in a computer. If you're going to get really good advice from a certified financial planner, or a chartered financial consultant, you will pay several thousand dollars a month. Anything less than this I would be very skeptical of. So the bottom line is, no one going to take care of your finances better than you! It was different 15 years ago, but again is one of those changes we've had to adjust to. If you choose to get a financial consultant, ask some hard questions like, "What kind of financial planning do you specialize in? Are you registered with the securities and exchange commission? What financial products do you most often sell? Have you ever been disciplined by any federal or state agency? Will you give me a copy of your ADV form part two? (This is the form that planner has to file with the SEC. If he won't give it to you, don't do business with him.)

The next chapter talks about health care. I don't have to tell you already, the free ride is over. Medicare, which covers about 75% of medical costs is so deep in debt there is nothing we can do to bail it out. A growing number of corporations have eliminated health-care coverage. So you need to build this into your plan as well. If you are employed your employer is required to allow you to stay and its health plan for 18 months after you leave the company. You have to pay the company cost plus a 2% fee. After this, you can convert to an individual plan. This area is also becoming more and more complicated, and uncertain. Because Medicare is in such a crisis, we don't know what the future holds. The next Congress could raise taxes to such a high level that they could attempt to bail it out, depending who gets the presidency. There is talk of a socialized health system, which I think would be the death of America, but either way it goes you need to plan this part of your financial future. You will either be taxed for it, or provide it for yourself. Either way, it will cost you.

Another fun part of this book is to look where you're going to retire. Do you know that four out of five retirees don't move anywhere? But this is something you should consider. For example, in a high expense area like New York City a typical middle-class family will pay about $15,000 a year in state and local taxes. That same family in Alaska would pay only about $3000. It makes a lot more sense to move to a more country area. There is lower crime, less noise and stress, and friendlier people. Money magazine several years ago, shows the top 20 retirement locations in America. Looking at things like low crime rate, mild climate, affordable housing, attractive environment, excellent healthcare, low taxes etc. Towns like Prescott Arizona, Fairhope Alabama, Mount Dora Florida, Las Vegas Nevada, Chapel Hill North Carolina, Naples Florida, Sedona Arizona, Fayetteville Arkansas, Kerrville Texas, Durango Colorado, Asheville North Carolina, Myrtle Beach South Carolina, St. George Utah, Sequim Washington, -all these towns are wonderful places to live at a fraction of the cost of many major cities. You should be thinking about this also as you plan your retirement. One of the reasons I live where I live in Washington is that Washington is an income tax free State. The county I live in has extremely low property taxes. It is a rural community, but we have excellent shopping, hospital, education, and recreational opportunities. So dream on, and work this into your overall financial plan as well.

The book also deals with retiring abroad. Because I have had the privilege to travel to almost the entire world, I've learned a few things about this. First of all don't trust what you read. You need to go and see the place itself and spend some time there no matter where it is. Check out things like the climate, ease of access from North America, medical services, acceptance of Americans or Canadians and economic and political stability. Some places you would never think of like Costa Rica, Honduras, Portugal, you can actually live for a third of what you would pay for a comparable lifestyle in North America. I have recently spent quite a bit of time in New Zealand. The cost is comparable to North America, but it is an untouched country, full of beauty, low on crime, and very few people live there. Many North Americans would love it there! So you're in for a little bit of adventure, you may want to start planning this way.

The next chapter deals with a very practical issue that many of you will face. And that is how to handle your pension. Do you take a lump sum, often called an annuity, which is one big check for your entire retirement, or should you roll your money or into an IRA or pay tax on it right away?

The biggest challenge about an annuity is that it does not keep up with inflation. You need to really think this through, especially looking at things like, “will this money be used exclusively for your retirement, or do you want to leave an inheritance for your kids?” There are also several different kinds of annuities. A single life annuity, or the joint and survivor annuity which keeps paying your spouse after you die a percentage of what you've been getting.

If you decide to go for the lump sum, you immediately have to make another decision. The decision that will really determine how your money will be taxed. You can choose to take the money and be taxed right away, or you can roll it into an IRA and avoid the tax till you start taking it out. Both ways have certain advantages, and you need to plan carefully. There are all kinds of ways you can work this IRA. You can use 5 -10 year averaging. You can do a minimum distribution allowance, -each person is different, and at this point I would really encourage you to get a excellent tax accountant to look at your particular situation and make a recommendation.

The next chapter deals with variable annuities. If you have not made full use of the tax deferred alternatives that we've talked about, such as your 401(k) or IRA then you might want to think about a variable annuity. These are pretty complicated investments, but worth mentioning here. Variable annuities are essentially tax-deferred mutual funds for people in the 28% tax bracket or higher, who are willing to keep their hands off the money for at least 10 years.

Each annuity contains two elements. A life insurance guaranty, plus mutual funds that potential for big tax-deferred capital gains. The disadvantage is that you have to buy them with after-tax dollars, and they often come with very high fees. The advantages is that your gains build up tax-deferred and there are no limits on what you can put in a variable annuity, so it becomes the biggest tax shelter you can find. I personally find the most important thing with variable annuities is the fees they charge. Watch things like the surrender charges, insurance charges, management fees, etc. You can buy no load annuities, but you often have to watch the other fees which are sometimes much higher. Like in all things, do your homework, comparison-shop, and you will be just fine.

Another chapter deals with a very interesting point that is becoming more and more relevant. Will you outlive your money? The statistics are interesting on this. The number of people aged 100 or over has doubled every decade since 1950. People over age 85 are the fastest age growing group in the United States. Current projections show that more than a million baby boomers will make it past 100 in America alone. So we are talking about financing a very, very long retirement.

So, one of the things you want to consider also is to never stop investing for growth. Or purchase things that provide you a residual income such as rental properties etc. Again, this is difficult, because each person is different. If you have $1 million when you retire at age 65, and live to be a hundred, you have 35 years to live. So you could spend about 28,500 year for 35 years and be broke. Or, you could invest the million in four homes that you could rent out for $1200 a month and make $48,000 a year, and have houses that will appreciate in value that you can pass on to your kids. Another alternative is to take out a reverse mortgage on your home. A reverse mortgage is simply a loan secured by your own house if you own it. These are becoming quite popular, and the government has put in some strict regulations that has made it a very safe way to retire. Another thing you can do is go back to work part-time in at your leisure. I have some relatives that retired two years ago. The husband and wife both work at the hospital as counselors two days a week, six months of the year. They enjoy their work, and it gives them an extra $18,000 a year, which they use to go south in the wintertime and become snowbirds.

Another point is somewhat controversial, particularly among Christian groups is regarding your giving. This is something I feel very strongly about although I get a lot of flack for it. Many retired people have given away a lot of money during their lives to charitable organizations. These are goodhearted people who mean well. However looking at things in the long term, it would have been much better to have saved and invested the money for the long term, and built a strong nest egg. Like the couple in the above example. They saved $1 million. Then they bought four houses that produce $48,000 a year. When they die, they can donate these houses to a charitable organization of their choice. This makes more sense then donating small amounts of through their entire life. Think about it. If a couple gives $1000 a year to a charitable organization, it is considered a lot of money. If they sacrifice for 40 years, giving $1000 a year to the charitable organization, then in their lifetime of working they only donated $40,000. But by following the plan, I just outlined, they could donate more than that every month after their death, and a legacy could continue for thousands of years! That just makes sense!

The last couple of chapters deal with the subject, If you have five years left to go before retirement, what should you do? The book lists 10 items you will want to consider.

1. Re-calculate how much you will need. This will tell you how close or how far you are off your mark.
2. Reconcile your plan with reality. Sometimes you need to change your plans, investments, but whatever it takes, recalculate to achieve your goal.
3. Consider hiring a professional, - spend a few thousand dollars to really get professional advice.
4. Start paying off all your personal debt. You want to retire debt free.
5. Focus more on where you're going to live. You need to make a decision at this point, if you are going to stay where you are, or move to another place.
6. Take a new look at your asset allocation. Put together all of your investments, 401(k)s, other tax-deferred income, savings plans, annuities, IRAs, residual income, etc. Change and adjust this as you need to achieve your goals.
7. Check your life insurance. Are you over insured or underinsured?

8. Make a realistic plans about work. This is a time to do things that you enjoy and are good at that can make you some extra money. Began to make a list of jobs you'll do and plan for them.

9. Visit your benefits people in your company. Get everything on the table in writing about your pension, medical benefits, life insurance, your spouse, and know exactly what the future holds.

10. Call Social Security and get a complete up-to-date projection of your benefits.

Then if you get to six months before retiring, take another nine steps.

1. Again, figure how much you'll need and make sure you're on track.

2. Notify your company's benefits department. Let them know you're planning to retire in six months.

3. Take another look at your benefits, and see which ones are needed or not needed for the future.

4. Decide, as we talked earlier to take a lump sum or an annuity. Again, I encourage you to get a very good financial planner at this point, and a tax attorney to help you in this process.

5. Work out where your money will be invested. You want it to keep working for you in producing more money.

6. Set up a home equity line of credit. This allows you to have quick cash without having to go to the standard credit routine.

7. Check out reverse mortgage deals. If you're planning to use this strategy, shop around for the best one.

8. Decide about Social Security. Do you want to start drawing at age 62 or age 65?

9. Start letting go. Start focusing on the future. What will your days be like? What will your first project be? Where will your first vacation be taken?

Well that pretty much summarizes the book! I liked this book a lot, because it is similar to goal setting. You're actually planning your future in advance. Planning your retirement and your legacy are fun and very fulfilling goals. It is a way to get in that top 5% of people who enjoy their retirement and leave a legacy for God's work that will continue to produce income for centuries after they die. So this month, take a good look at these principles, and do what Jesus said, be a doer of the work, not a hearer only. Then you will be blessed and enjoy a secure future. I want to wish you well on that journey!

As always, it is a pleasure to share this month with you. All of you listening to this are supporters of our ministry. I can't tell you how much that means to us. Your donations are being used every month to find seminars, and leading people to the spiritual principles that change their lives and lead them to a knowledge of God and eternal life. Keep up the good work and know that each one of you are deeply appreciated and loved. Till next month, may God's grace and favor shine upon you! So long.