[Guest Post] A Million Dollars Isn’t $h1t…Unless You Don’t Have It

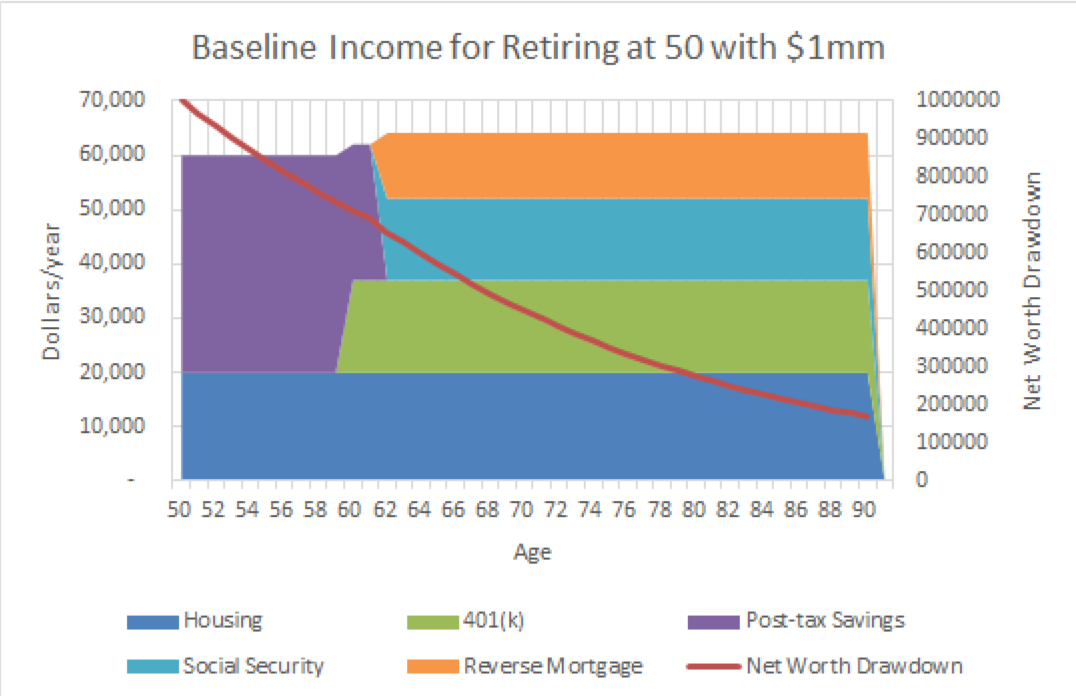
The following is a guest post submitted by community regular JayCeezy, sharing a few ideas he has picked up along the PF road we all travel. GYFG welcomes guest contributions, please click here for more info.

A financial mentor of mine told me something that stayed with me: “A million dollars isn’t $h1t. Unless you don’t have it.” But once you have it, what are you going to do with it? Why? I’m not an expert, but I am experienced, and want to share these ideas, passing along useful tactics and strategies my PF mentors generously shared with me. Maybe you will find some of this worth passing along, someday.

You might not need a million if everything goes your way, but if you don’t have a pension, inheritance, personal-injury settlement, or other windfall, it is a reasonable baseline that will keep you from having to return to work or take in a roommate. Some of these things worked for me, and some of them are things I wish I knew and applied. Consider this slapped-together compendium my Personal Finance equivalent of “Meditations” by Marcus Aurelius, Thomas Edison’s “Innovation” notebook, or “Jackass 3D”.

Personal finance consists of two things at the core: **save more, spend less**. Everything else follows. We read PF blogs mainly because we are all looking for that “magic bullet” that will be the secret to wealth, and the freedom that wealth can provide. GYFG has the [$10 million dollar goal]() covered, and it is a worthy one. This is for people who want out of the rat-race, don’t care about impressing anybody, and have a $1 million dollar goal, to start.

The figure below (and to the right) shows a conservative baseline for cash flow thrown off by a $1 million critical-mass. It is calculated with a starting salary of $40,000/year with 4% annual raises, a 20% savings rate at 3.5% growth, working 26 years. You can acquire $1 million by age 50 using the above assumptions, so you don’t have to make a lot of money, take big risks, or hit investment home-runs.



This example shows imputed rent of about $20,000 for the reverse-mortgage; you don’t pay taxes on the payout, either. The dollars are current-year. This is the base case for a secure retirement, achieved with minimal risk. **If you want more, then earn more, save more, risk more, or work longer.** But this should be within most reader’s ability to accomplish, and my belief is that everyone still reading will do so, easily.

Many of you will hit this milestone much earlier, and my thought is that additional savings and investment can be utilized with increasing risk-levels, since you have your baseline handled.

These next thoughts are intended to provide contrarian choices as you pursue financial independence. These don't apply to everybody, or in all cases. But they worked for me, or would have if I knew then what I know now. If you find these useful, you may really get a lot out of "More Wealth Without Risk" by Charles J. Givens.

• **Split after-tax savings and pre-tax savings 50/50**. If you are fortunate enough to participate in a 401(k) with a match, save up to the match amount first. You will use the after-tax savings for a down-payment on a home or a car purchase, and unexpected life-events before age 59.5.

• **Don't buy a house as an investment, tax-write off, or if you are single**. The costs of ownership are too great, until you are part of a dual-income household or earning above $100,000. Owning a home locks you into a geographic region, subject to market conditions beyond your control, and will be the controlling factor of many upcoming life decisions. Don't let investments control you, make sure you are controlling investments.

• **Pay cash for cars**. If you can't pay cash, don't buy it. If you really want it, save for it. Cars, watches, conspicuous consumption are fine, if impressing strangers is a priority.

• **Reverse-mortgage** – you have to be 62. You can get a loan for 2/3 of the value of the home, and stay in it as long as you can. If you move, you have to pay off the loan; this is a great deal if you do it early and live a long time. Otherwise, a bad deal. More at this link.

• **Life insurance** – Don't buy it. It's not an investment. A single person doesn't need it. A young couple doesn't need it. A middle-aged couple doesn't need it. An old couple doesn't need it. I have seen contemporaries insure their toddlers. Why? It is a perverse-incentive. It only pays off if there is a tragic event, and the return is greater the sooner tragedy strikes. In the meantime, it bites into cash flow which could be used for additional savings or debt-elimination. One exception: buy life insurance to provide for a loved one who can't provide for themselves.

• **Insurance** – don't get comp for autos; if you have an accident and it's your fault, pay to fix it (or don't). As a young man in the high-risk category, I had several years where an insurance salesman convinced me to comp/coll, and I wound up paying more per year than the car was worth! Once your NW gets above $200,000 or you are a homeowner, buy an 'umbrella policy'; it is just a few hundred per year, and will keep a lien or garnishment of future earnings from crushing your finances in the event of a lawsuit. Long-term nursing care – Self-insure, and save the cash flow.

• **Children** – speaks for itself. If you have children, Early Retirement is no longer a top priority.

• **Don't buy or sell anything primarily for tax reasons**. Transaction costs and maintenance for real estate will be 1.33 times your original estimate.

• **When calculating Net Worth, it is fine to include IRA/401(k)/403(b)/457 balances**. Just don't pretend to be surprised when you pay taxes on the back end, and if your NW is $100,000 in an IRA then acknowledge that it isn't really $100,000.

• **Social Security** – My wife and I plan to take benefits as early as possible for two reasons. **1)** 85% of the S.S. benefit is taxable beyond $24K/yr in earned income (this includes IRA, 401(k), 457(b), etc. withdrawals). **2)** the 'break-even' for taking early benefits (62 at 70%) to our regular payout (67 at 100%) is age 78. Not only is the risk for an early demise removed for 15 years (not once, but twice for each of us), but we feel the utility value of a few hundred dollars a month in extra benefits after age 78 is lower than in earlier years. More info on the taxation of SS benefits here.

• **Your personal Social Security payout(s) can be determined here** and you can perform different scenarios in which you work different durations or earn varying amounts. Talk about "means testing" has been around since the 1980s, and the problem is that it provides a disincentive to save (in direct conflict with the 401(k) rule, IRAs, lower Capital Gains rates for investments, etc.) I think it is OK to plan for receiving it, and respect your opinion if you choose not to.

• **Taxes and IRA Rollover withdrawals** – We have determined the tax implications, and find the potential for compounding is outweighed by the benefit of minimizing taxation. Our plan is to begin early withdrawals using the 72(t) Rule, realizing smaller amounts over more years. This will significantly reduce our tax bill, as well as keep our S.S. payments from being taxed at greater amounts. The traditional advice is for leaving tax-protected income as long as possible to allow maximum compounding; withdrawing tax-protected income with 72(t) in the 10 years before SS eligibility will allow us to be taxed at the lowest brackets over a longer period of time. You can find more info and run test scenarios here.

• **Two can live at 1.3 times the cost of one**. The first child will add 30% to the cost of one. Each additional child, reduce by 5% (i.e. 25% for second, 20% for third). A household of five will cost twice what a household of one costs. You can eyeball this, and see that the fastest way to **save more, spend less** is to be part of a double-income, no kids, household.

• **When selling a residence, count on receiving 93% of the sales price**.

• **When buying a residence, count on paying 104% of the sales price**. If you pay cash, 101%.

• **A 'quick-and-dirty' retirement calculator** I like for running various scenarios is free at Vanguard, found here.

These last two thoughts are indirectly related to personal finance, in that the quality of one's time and lifestyle are really the main reason to **save more, spend less**. Attention to these things can make one's life much better, while inattention can be very expensive financially and otherwise.

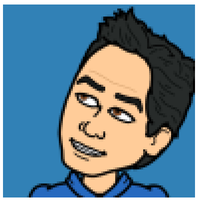
Personal Improvement
It isn't too late to change, at any age. Just try. If you are chronically late, you are burdening others with your selfishness and disrespecting their time. If you ask for favors or a recommendation and don't follow through, you are not flattering the person; you are insulting them [GYFG Here – I was compelled to add a comment on this. I call these people "Ask Holes", don't be one!]. You already know your shortcomings; they don't have to be lifelong flaws, unless you choose them to be. Some people are born knowing all they think they need to know, but 20 minutes a day of reading can bring life-changing knowledge.

Guard your time
You can spend endless hours calculating and tracking personal finance. Endless hours on retirement calculators. Endless hours on LinkedIn building up a network of people you never met, live on another continent, you used to know decades ago, etc. and in the end the only people benefitting from your network will be the HR links. What is your time worth? Not all analysis is useful, so find the analysis that will help you **save more, spend less** and leave the rest.

Learn these phrases to deal with people that don't respect your time: "We've had this conversation before, is there something new I need to know?" "What is your bottom line?" "Why are you telling me this?" "I just have a few minutes, what can I do for you?" "I prefer not to discuss things like that."

Hopefully some of this will be useful to you on your journey as a Financial Freedom Fighter. I really enjoy the PF community, and supportive positive attitudes of those who share this interest. Continued success to everyone, thanks to GYFG for providing this opportunity to share, and thank you for reading!

-JayCeezy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own financial stats. I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! Read More