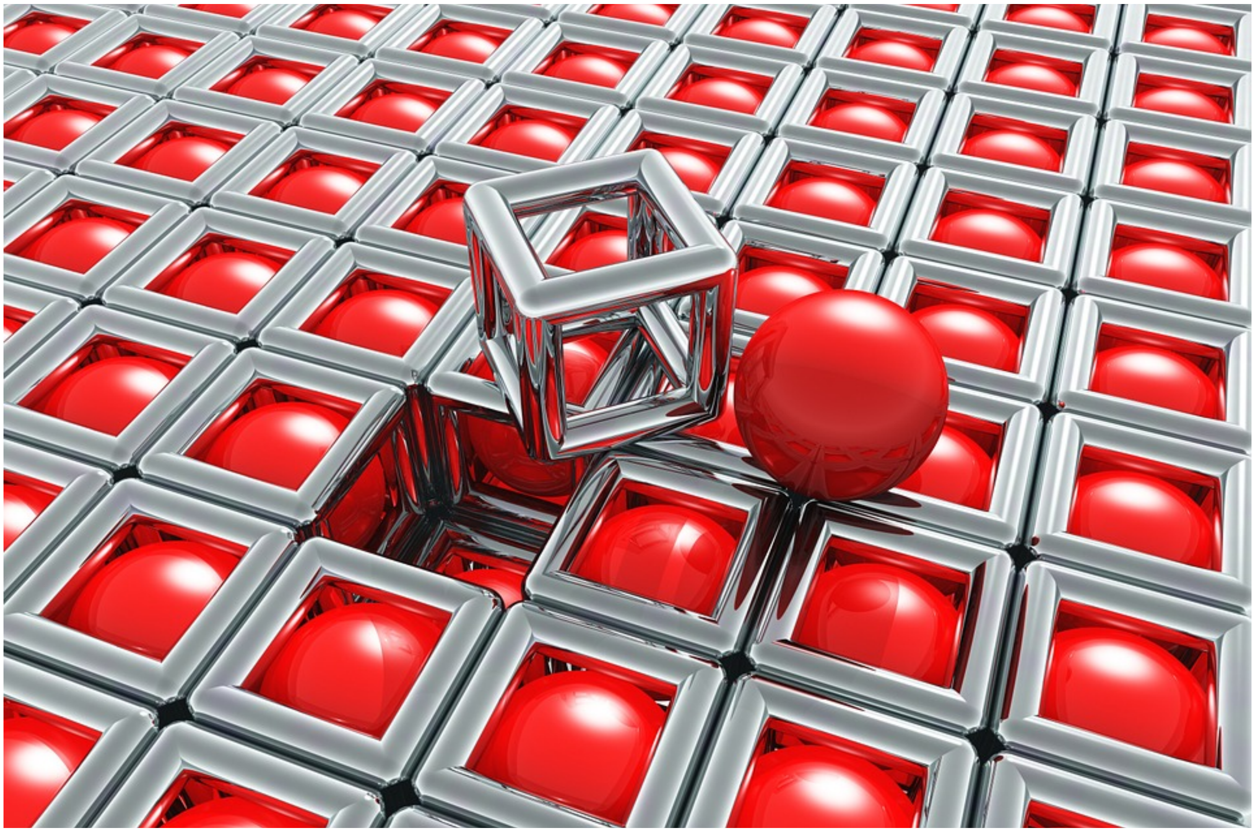
Financial Independence Defined: Thinking Outside the Box



Do you have a plan for your financial independence? Financial independence is more doable than you may realize. Financial independence is defined by three foundational concepts.

Financial Independence Concept 1: *Have enough income for life to pay expenses in perpetuity, with minimal risk to produce this income*.

Income doesn't always have to come in a traditional way – via a big job with a big company. There are multitudes of different ways to generate income and sometimes we need to think outside the box. Here a few that my clients have utilized to generate income:

- Consulting after retirement from the big company. Many are able to utilize some of the relationships they acquired while working.
- Receiving a pension from employer. These have gone by the way of the dinosaur, but some are still out there.
- Social Security. Yes, it's viable today, although underfunded.
- Income annuities. Annuities are common ways to guarantee additional future income without market risk.
- Income from investment portfolios. It is critical with investments to make sure the portfolio is properly constructed in order to maintain proper risk, while also using income-generating positions.

- Real estate. Rental income from residential or commercial properties can be a long-term income generator.

Financial Independence Concept 2: *Make sure your expenses truly reflect how you want to live your life, with no lifestyle creep.*

They key is to understand exactly what your current expenses are. This is typically not the easiest thing we work with people on when they come to see us. But, we have to start somewhere. And although it may be uncomfortable and take some time and emotional energy, it is a crucial exercise with big pay offs.

Without a doubt, the biggest differentiator for creating wealth is lowering expenses. It certainly is what we see in our "millionaire next door" type of clients.

It's amazing that your expenses can start and one point and three years down the road, you realize most unexpectedly that have become 20% higher. This is commonly referred to as lifestyle creep and is a cancer in your financial plan. It creates guilt and can put a damper on financial independence.

A budget doesn't mean that the fun will be removed from your life. If you have budget for buying wine, that's no problem. Embrace it and plan for it. An easy way to stay within budget is to know your monthly expense number that you cannot exceed.

Financial Independence Concept 3: *Have a strong legacy plan in place, upon your death or disability, that doesn't go away if you live a long time.*

A little known fact: Have your financial advisor stress test your assets, to make sure that your family won't run out of money if you got hit by the proverbial bus. It is important, also, to make sure that all of your estate planning documents are in good order and updated.

Work with someone to analyze if life insurance is appropriate at various stages in your life. It's not just for young couples. Our firm has commonly used life insurance in cases involving 2nd marriages because the end goal is to get the money to whom and where you want it to go (Perhaps not to the stepmother to your kids). Life insurance can be a great equalizer and help you better implement "what's equal is not fair, and what's fair is not always equal."

Make sure you have set aside assets for extended care or consider purchasing long-term care insurance. If you are still working, keep in mind that your group disability policy doesn't include your RSU's or stock options that you were given.

Ultimately, I believe you need to take action and stop feeling guilty. They key is to better define what independence is for you, create a solid, math driven plan to get there, and Work IT! It is possible!

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