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What's wrong with traditional retirement planning calculators?

By Doug Sippel

A quick look at the typical retirement planning calculators available on many web sites today is an interesting study in make-believe. You will find that you are asked for many assumptions about interest rates, inflation rates, yearly income, date of death, funds desired at death, and expenses during retirement, etc. in order to calculate the solutions. The problem is that life doesn't work this way. These calculators don't take into account the many variables, which change as we age and as our objectives change over time. There is no way to predict how changes in the economy, tax laws, technological changes, planned obsolescence of goods, inflation rates, and market fluctuations over time will affect how we will respond to these changes.

To ask someone at age 35 how much they want to leave as an inheritance is meaningless. The decision won't be made until they are much older and their relationships and feelings at that time will determine those decisions. To ask someone to predict tax rates, inflation rates, rates of returns on their assets, how much income they will need in retirement, what their health will be like in retirement, how much medical care and prescriptions will cost, etc is building a house on shifting sand. How we will respond to a specific set of circumstances will be determined by many different variables, which are impossible to predict.

Retirement calculators often don't include the value of real estate or rental property, a business, living benefits of life insurance death benefits. Where is the inclusion of reverse mortgages, rental property liquidation, pay-downs on assets, etc? None of these options are included, only the traditional savings, mutual funds, stocks, bonds, qualified retirement plans. How much can someone safely withdrawal from their assets without running out of money? If there is a bear market just before someone is ready to retire can they recover? There are many questions you should ask yourself to see if your wealth is working as hard as it could be.

What about the offsetting cost of chronic debt over an entire lifetime? How many people go through their entire life making a car payment? Why are Americans in so much debt? I see the problem as a lack of understanding due to misinformation. Let's look at the typical family and see how the normal course of events unfolds. This young couple will want to get married, buy a house, buy cars, pay off student loans, have children, pay for children's activities, start

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funding retirement, pay for benefits and insurance, tithe and give to charities, take vacations, and purchase stuff. This means that there is very little income left to save.

We have all been told to have 6 months of income in a savings account. For most people it takes about 5 years if they can save 10% of their income. But they have also been told how important it is to start saving for retirement early so they can reap the power of compound interest. So they save a couple hundred to a couple thousand dollars in the savings account and the rest goes into the 401(k) plan which they have been told over and over again is very important and because it is automatic, and they get matching money from the employer, but they can't access the money.

No one has ever shown them the importance of capitalizing an internal banking system first, a banking system which they control, and allows them to earn interest on the capital used to purchase depreciating assets and large expenses. Once they understood this principle they would realize that the real power to create wealth is created by having the use of and control over their assets and cash flow. This would allow them to create wealth much quicker by applying the cash flow principle rather than the accumulation principle. Compound interest is only effective if you are earning interest, not paying interest.

Don't allow yourself to be caught in the misunderstanding that what you read in the media is the right way to plan for your future. The majority of people don't accumulate much money because they follow the wrong advice. The only way which really makes sense is to engineer your present situation so that your current assets and cash flow are structured to provide the greatest amount of protection from the variables which could harm us; while at the same time creating the greatest opportunity for growth of our wealth at the most efficient level with the least amount of risk. As circumstances change and our needs and wants change then we adapt to the new changes. Doing this creates the most efficient and effective use of our assets and cash flow and allows us to reach our maximum potential.

If you would like to see how we do this using the Personal Strategic Implementation Process please contact our office to arrange for a personal demonstration. We will be happy to show you how we work and why we are different than the typical Financial Planning Firm you might have experienced in the past.

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