

Figuring Out Your Numbers

"If your outgo exceeds your income your upkeep will be your downfall"

Bill Earle

As the sun was setting on a small airstrip in Essex County, New Jersey on July 16, 1999, John F. Kennedy Jr. climbed into the cockpit of his small twin-engine airplane and prepared for takeoff. At 39, he was in the prime of his life. He was also running late for his cousin's wedding 300 miles away in Martha's Vineyard, Massachusetts.

His original flight plan called for a 6 p.m. departure, but traffic was heavy getting out of New York City. By the time the Piper Saratoga lifted off, it was 8:39 p.m. What was to have been a daylight flight would now take place in haze and darkness.

Tragically, the light aircraft would plunge into the inky waters of the Atlantic Ocean a mere seven miles short of its destination, claiming the lives of young Kennedy, his wife, Carolyn Bessette, and her sister, Lauren.

What caused the crash? Kennedy was flying blind. He was qualified to fly plane in daylight but did not have an instrument rating. Instead of flying over the shoreline where lights on the ground could have guided him, young Kennedy chose the more direct route over open water. Authorities investigating the crash said that Kennedy was likely a victim of something called "spatial disorientation" – the inability to know where your body is in space when you have no reference points to go by.

At some point, JFK Jr. must have known he was lost in the haze and gloom of the night sky. He may have stared in panic at the many dials and gauges on the plane's control panel, hopelessly confused at what they meant. Investigators say the plane went into the water nose-first, which means he probably never knew he was flying straight toward the water. [Source: National Transportation Safety Board Aviation Accident Final Report, July 16, 1999; <http://app.nts.gov/>]

There is an old expression, "A little knowledge is a dangerous thing." Kennedy had completed about 50 percent of the training he needed for instrument certification. He had just enough training to make him think he was safe at the controls. His fatal mistake was not just the lack of knowledge, but believing he had all he needed.

To plan properly you need data. Without data, you are flying blind. To land safely in retirement and not crash (prematurely run out of money), you must know two things: (a) your net worth, and (b) your retirement number - how much you need to save up before you can safely retire. Armed with that knowledge, you can safely disconnect yourself from your umbilical paycheck, and permanently derive your income from other sources.

Net Worth

Your net worth is simple. It's what you have saved minus what you owe. Problem is, a lot of people forget those last three words – *what you owe*.

Why is accurately calculating your net worth such an essential first step to planning your financial future? Because you must know where you are before you can get to where you are going. That was JFK Jr.'s problem. He knew where he wanted to go, but he could find no reference point to tell him where he was.

Have you ever lost your bearings in a large, indoor mall and had to consult the information kiosk? If you did, you probably remember seeing a map of the mall encased in glass. And what was the first thing you looked for. Wasn't it the big red arrow pointing to a dot above which were the three words, "**YOU ARE HERE**"? The map of the mall layout was information you needed. But unless you knew where you were, you couldn't get to where you were going, could you?

It's like that with planning your financial future. It is crucial to know where you stand financially *at the present* before you start plotting a course to take you into the future.

Your Retirement Number

A few years ago, a large insurance company aired a commercial featuring a man walking his dog down a tree-lined street. What grabs your attention is the man has a huge, orange number (probably made out of Styrofoam) under his right arm. It's his retirement number – the amount he must save before he can safely retire. You know this, because on his walk he encounters his neighbor, standing on a ladder trimming his hedge. On top of the hedge to his right rests the word "Gazillion" preceded by a dollar sign.

"What'cha got there, Clark?" says hedge trimmer

"It's my *retirement number* – the amount of money I need to have saved up before I can safely retire. Is that your number," asks dog-walker, pointing to the big word "Gazillion" resting on the hedge?"

"Yeah, gazillion, bazillion. I'm just going to throw something at it and hope it's enough."

Obviously, the point of the commercial was that hedge-trimmer hadn't done any planning and was clueless as to how much money he would need for income in retirement. Sufficiently chastened for his lack of vision, the dog-walker exited the scene and we are left shaking our heads at how foolish it is not to find *our* retirement number.

I am not usually a big fan of TV commercials, but this one had a point. So, how do you arrive at your retirement number?

Let's say you want to retire in 15 years. If you can tell me how much income you want, then, believe it or not, I can tell you to the penny what you will need to put away today, using some time-collapsing income strategies and techniques. The value of collapsing time is you can leap-frog ahead and look forward. The most crucial piece of the retirement puzzle is **income** – what your paycheck will be once you retire and how long it will last.

When I meet with potential clients, two questions come up nearly every time.

#1 - Have I saved enough so that my money will last as long as I do? In other words, how much do I need to put away so that, when I start taking money out, I will have enough to last throughout my life?

#2 – Will I be able to maintain the same lifestyle I have now in retirement?

From a retirement planning point of view, nothing is more important than your ability to generate income. Understanding how to turn your savings and investments into income trumps everything else. As I write this, interest rates are at record lows and stock market valuations are sitting on a razor's edge of volatility. People are living longer lives, too. All of this makes not running out of money in retirement more challenging than ever before. That's why we must approach this area carefully and strategically, armed with as much information as possible, and with as many planning strategies and techniques as possible at our disposal.

Let a fully-trained professional with fiduciary capacity (your best interests at heart) help you figure out your number – how much you must put aside now. And what if you lack the resources to put that much aside immediately? Then let that same professional help you accelerate your savings so you can achieve that goal.

Peter J. D'Arruda is President of the IARFC (International Association of Registered Financial Consultants), an Investment Advisor, and has been in the financial arena for nearly 25 years. He is the founder at a financial firm designed to help his clients "Cross the street of life." At Capital Financial Advisory Group, LLC he and his team strive to help their clients take the worry out of living in retirement. Known as "COACH PETE" to most of his clients, Pete has made it his lifetime goal to assist his clients in achieving the levels of success they desire.

He has authored 6 books and co-authored 2. Two of his books have reached the best-sellers list on Amazon. The most noteworthy book, Successonomics, is one that Coach Pete co-authored with Steve Forbes. But, by far, his favorite book just happens to be his most recent, "7 Baby Steps to a ridiculously Reliable Retirement Income".

Each week he hosts the wildly popular, nationally syndicated, Financial Safari radio show, heard by millions each year. You can listen to past shows on iTunes and by visiting FinancialSafari.com He has just been named to the prestigious Forbes Leadership Council and will be submitting at least 6 articles a year to Forbes for their readers' print and web enjoyment. He graduated from The University of North Carolina in 1988.

Coach Pete is WINNER of:

- 2 EMMYs
- 2 TELLYS
- 2 QUILLYS
- 3 EXPYS

He is a proud father of daughter, Caroline, with his wife, Kim.

