

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



040 8 Critical Retirement Planning Mistakes To Avoid with Jason Parker & Erik Ramsey

Announcer: Welcome back, America, to Sound Retirement Radio, where we bring you concepts, ideas and strategies, designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement.

Now, here is your host, Jason Parker.

Jason: Seattle, Tacoma, Olympia, Gig Harbor and Erik, the good people and Kitsap County.

Erik: Thank you.

Jason: Also the bad people. I don't want to exclude the bad people. Oh, all the good people. There's only a bunch of good people here. Just to remind our listeners that if they ever make their way out to the Sunny Kitsap Peninsula in Washington State to swing by and we'll make them feel right at home, and invite them out to one of our educational workshops. We've got a couple of them coming up in March so those are always available. Erik, today, we are on Episode 040, Episode 40 and the title is 8 Critical Retirement Planning Mistakes to Avoid. That's a mouthful.

Erik: It is but it seems like a good idea. Let's avoid those mistakes. They can be costly.

Jason: Yeah. Let's learn from the mistakes other people have made and then not repeat them. Now, you said you had a joke for this morning.

Erik: Well, I do. Now, my jokes are longer because my attention span ... I don't know. I need -

Jason: It's a little bit longer than -

Erik: Here we go. Once upon a time, there was a barbecue and there were 2 sausages on the barbecue. The one sausage said, "Hey. Hey, man. What's going on? It's getting hot in here. Hey, hey. Is that fire? What's going on?" Then the other sausage said, "Ah! A talking sausage!"

Jason: Erik, you make me so happy that I'm not the only one with really bad joke.

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Erik: That was also from my little brother. My little brother funds all of my jokes, basically. He's the source of all of them, so yeah.

Jason: Good thing for little brothers.

Erik: You gotta love them.

Jason: Erik, before we get into our topic, 8 Critical Retirement Planning Mistakes to Avoid, what are we starting off with this morning?

Erik: I want to start off with like those spiritual principles. I want to talk about cause and effect in the bible and sowing and reaping, and stuff like that. I was wondering, before we do this, let's set it up. I would like to just air some of your and my dirty laundry. Should we do that? It sounds like a good way to start off a radio -

Jason: Okay, good, yeah.

Erik: Like just release our secrets out into the radio.

Jason: Yeah. I'm getting uncomfortable as you're about to bring this up, but go ahead.

Erik: Jason, I know that I just feel it's time to bare our souls, yours and mine, and let out our secret. You and I in our youth both deeply loved video games. Just admitting that right now, I feel so much better, do you feel better or?

Jason: No. I'm actually embarrassed.

Erik: Oh, okay. I love video games. Once I got married, I had to quit, but -

Jason: I've had to. My wife said, "Jason, it's me or the video games."

Erik: Wow.

Jason: That was a real Comedy Jesus moment.

Erik: Were our wives talking to each other? That was pretty much word for word.

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Jason: Oh, I guess I got to video games down.

Erik: Oh, man. In college, I would play video games like until there was a scratching noise when I blinked like it was ... Yeah. I loved video games, but ...

Jason: There was one time I remember. I think I played for 8 hours straight without blinking and I ended up losing that game. I remember I felt as I was losing ... I felt like I was about to have a heart attack. I was so wrapped up in it. Some part of me, actually ... I've tried to go back and play video games now since those early days and I just can't get into it anymore. There was a time ... Part of me misses it, actually. I wish that I could -

Erik: Have the time and have those priorities.

Jason: Yeah, yeah.

Erik: I bring up video games because there's a thing you can do. You can enter a cheat code into a video game and make ... The video game designer will have a storyline or something laid out, a world that you're supposed to go through and face challenges, but you can enter cheat codes or you can find ways to reprogram the whole thing so that it's very easy so there's no challenges. It's kind of a cheat and it really is and it erases the challenge. You get to change that video game world however you want.

In Galatians 6:7, Paul says, "Don't be deceived: God can't be mocked. A man reaps what he sows." "Don't be deceived: God cannot be mocked. A man will reap what he sows." That's a mouthful as well. What, I think, Paul is meaning by this is don't think that you can cheat the system. Don't think that there's a cheat code that you can go in there and rearrange the whole universe, so that the laws of cause and effect do not apply to you. God would think that's an insult and He won't tolerate it. Sowing and reaping. You will reap what you sow.

He continues to say if you sow sin, you'll reap death and corruption. If you sow good things or to the spirit, it's how he phrases it, you'll reap eternal life. What I really want to get at is this cause and effect. A corollary to this, a corollary is a thing you get for free, whether you like it or not. The corollary, the fact that comes with this, is that I don't believe there's any time in life where you cannot make things

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better, where you cannot still plant something good and have something good grow from it.

Also, there is no time in life where you cannot make things worse. There is no time when you can't plant something bad and have something bad come up. Is that a good thing? I don't know. It can be fantastic news, right? It sounds like good news to say there is nothing that can't get better. No matter how good it is, we can always make it at least a little bit better. No matter how bad it is, there is hope. It can get better. On the other hand, we have free will and we always have the capacity to mess it up. We need to keep that in mind in every aspect of our lives. Finances, we could always make it better.

Jason: Can I share with you a story I just messed up pretty big yesterday.

Erik: You played video games?

Jason: No, no. I wish. That would have been a good one, but no. I'm running late to get out of the house yesterday morning. I grabbed a cup of coffee and my wife had bought these poppy seed muffins from the store and I thought, man, that looks good but I don't really have time to eat it at home. I'm just going to grab it, put it in the car and eat it when I get to work.

I'm driving down the road and I hit my brakes a little bit too fast when I had come to the stoplight, and that poppy seed muffin goes flying off my passenger seat, hits the floor. I'm looking at those floor mats and all I can think about is the disgusting things people have stepped in before they sat in my car. As I'm turning the corner, the poppy seed muffin is rolling back and forth just getting marinated and really getting whatever -

Erik: It's tragedy.

Jason: Yeah. I screamed out loud. I was so hungry and I was so looking forward to that poppy seed muffin, but here's the good news, Erik. This morning, I went to leave the house and yet again, I was looking at the poppy seed muffins sitting on the kitchen table. I thought to myself, "I really have 2 options," or I can just say, "I am never going to take a poppy seed muffin into my car again or I'm going to make sure that I position it in such a way that if I have to hit my brakes fast, it's not going to go flying." I got into the car and I held onto that poppy seed

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sat right in my lap. Really protecting it with one hand. Yeah. Here's the good news, something bad happened. I learned from the mistake and I corrected it the next morning, and I enjoyed a really great poppy seed muffin.

Erik: I noticed. I didn't get a poppy seed muffin this morning.

Jason: Oh. I just want to like throw that out there to the universe and whoever is listening. I did not get a poppy seed muffin. It's much easier for me to talk about my poppy seed muffin mistakes than it is my video game addiction from earlier in my life. I love that though, Galatians. What's the verse again?

Erik: Galatians 6:7.

Jason: How does it read?

Erik: "Don't be deceived: God can't be mocked. A man will reap what he sows."

Jason: A man will reap what he sows.

Erik: If people have made ... If I, Erik Ramsey ... Not if I have made mistakes. I'm still paying for them in various areas of my life: Decisions I've made, tempers that I've lost, etc. It's like I've planted that seed and they grow. They will grow. God basically promises what we plant, it will grow. That means we're going to have like go back and plow through those like undo what we've grown, what we've planted, but there's always that promise that we can make it better if we learn from our mistakes. That's a huge if but there it is. It's built into the universe.

Jason: I like that. There's a men's study, a men's breakfast that I went to one morning. The speaker, he said that he and his dad, they would garden a lot when he was a kid. There was this weed that they would pull up out of the ground. When they would pull the weed, it had this really long root to it. His dad equated sin to this weed. It grows under the ground for a really long time before you actually see something that you can pull up. Usually, that's the time in people's lives where it's out of control and things are falling apart, and families are breaking down and bankruptcies are taking place.

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I think this is a perfect lead-in to our topic today, the 8 Critical Mistakes to Avoid, 8 Critical Retirement Planning Mistakes to Avoid, because the reality is that we don't have to go out and make those same mistakes. We can actually learn from people that have gone before us. I think that's one of the things that I'm excited about sharing this morning. Some of those mistakes you need to side step as you're preparing for or even transitioning through retirement.

Erik: Can I just say that even if somebody has made these mistakes, it's not the end of the world? This universe is made in such a way that it can always get better. We can always plant good seed. Even if like, "Oh, no, I've made mistake 3, 7 and 8," well, we can start making plans or we can start making corrections, so that good things will come about and we can stop planting the bad seeds.

Jason: Especially when you have a faith in something so much bigger than just earthly possessions. Really, what we're talking about here is eternity. I've met people on the financial planning side of their world where their whole life has been about gathering money and that's their purpose. Once they get what they're looking for ... First of all, there's never enough. I found those people never have enough. Then second of all, there's no depth to life. I heard somebody say once, "Be careful what you wish for because you might just get it."

Erik: Yeah, yeah and it might be all you get.

Jason: Yeah. How sad might that be if your whole purpose is nothing more than accumulating money at the sake of everything around you.

Erik: Gain the whole world but lose your soul.

Jason: Oh, yeah. That's a great one.

Erik: Jesus said it. He's better than me. I'm just going to own that like not try to play -

Jason: Give credit. All right, Erik. Well, I'm looking forward. Again folks, you're listening to Episode 040. My name is Jason Parker. I've got Erik Ramsey in the studio with us. Today's episode is 8 Critical Retirement Planning Mistakes to Avoid. We're going to take a quick break and then we'll be right back after this.

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Seattle, Tacoma, Olympia, Gig Harbor and all of those good people right here in Kitsap County. I don't know how I got started on that, but I sure like it. I like recognizing the people who live here in my little community, the people that we get to serve, just amazing. I think what it is, I'm always in awe of just how amazing it is, the people that we serve. We serve really amazing people.

Erik: It's true, it's true. So many times I come out of meetings with clients and I just think, "My goodness. These people are incredible." The stories that they bring are just fantastic.

Jason: One of the things I love about the work that I get to do is I get to appear into people's lives. They share with me stuff that they don't normally share with their friends or family, or neighbors because personal finance is really something private. I get to see what the end results are of the choices they have made along the way. Boy that is such a blessing for a guy that's 40 years old to say, "Hey, if you make these types of decisions, this is how it turns out." I feel an obligation to share with our community, with our listeners, the things that I'm learning along the way, because I'd like to say that I'm the smartest guy in the world. What I'm committed is always learning, and I found that oftentimes the people I learned the best from or the people that have had the experiences, the people that have made the mistakes and as they look back, they say, "How can I have done this different so that I didn't end up in this position?" That's really what Episode 040 is all about. It is the 8 Critical Retirement Planning Mistakes to Avoid. Let's get into this, Erik.

Erik: Cool. Number 1, you say and we say, really, not having a cash flow plan is a pretty critical retirement planning mistake. You got to avoid at nothing having a cash flow plan.

Jason: We're very fond of saying that without cash flow, there is no retirement. The bottom line is that retirement is all about cash flow. It's your income that will determine your lifestyle in retirement, not your net worth. Let me give you a quick example. I've met with a lot of people over the years that as you're looking at their balance sheet, they look really good from asset versus liability. Sometimes those folks they have a lot of their net worth tied up in land or real estate that's not producing income for them. If you don't have income or if

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you have expenses that equal your income, it's, again, retirement is about cash flow. If you don't have a cash flow plan ...

One way of thinking about this we're talking about potentially 20, 30 years, maybe even 40 years of unemployment. You've been saving a long time, but imagine if all of a sudden you stop working today. You've got income that you still need. You still need to pay the bills, keep the electricity on, buy the groceries, put food on the table. It's cash flow. Retirement is all about cash flow.

Erik: We actually have a pretty incredible video that shows what a cash flow plan can look like. It's on the website and if somebody looks at the retirement planning blueprint, it's right there on the front page.

Jason: I'm so glad you brought that up because I'm a visual learner like I can read something and I can learn from reading. I find for me personally, if I read something and then somebody actually teaches it to me like they can help me walk me through it step by step and show me exactly what they mean, boy it sinks in so much deeper. That's what we've created for our listeners the Sound Retirement Planning blueprint. If you go to Sound Retirement Planning, there's a blue square on the right side of the screen. They can click that and then they can go through this 4-step process that we've created. Erik, I have to give you kudos on that. You put a lot of work into creating those videos and they turned out really great.

Erik: Thanks. I'd like to point out. You're such a visual learner. You're actually making gestures on the radio -

Jason: With my hands.

Erik: I'm the only one who can see it, but ... I love watching my kids communicate because they're always using their hands. It just cracks me up because I know that that's what I do.

Jason: All right. What's the retirement planning mistake number 2 that we need to avoid?

Erik: Number 2, not having a budget. It's pretty deadly if you can't make a plan. You can't have a retirement plan unless you know what kind of outflow you're going to have. You need something of a firm number.

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Jason: Yeah. I love that quote by Thomas Jefferson. He says a small leak will sink a great ship. When working with high net worth individuals, we tend to work with a lot of folks and I've done really well financial in life. Because they've always had these great jobs and this great outcome, they've never really had a need to live on a budget because money comes in. They spend what they need. They have been good savers, good givers. It's not something that's been high priority for them, but here's the deal. If you're going to create a cash flow plan, we have to have an understanding of how much money you're spending. I think one of the things, it creates a lot of unsteadiness for people, is that it doesn't matter how much money you've saved. We've met with people who have millions and millions of dollars, but they still ... Everybody has the same fear. Have I saved enough to be able to maintain my lifestyle to be able to last the rest of my life? It really comes down to a budgeting question.

There's 2 sides of cash flow. One is income, one is expenses. The great thing about expenses is there's ... It's fun actually to get to see where your money is going and there's that tool that we like to tell people about.

Erik: Mint.com.

Jason: Mint.com, yeah. I started using Mint.com and it's a free tool. You can get it as an app for your smart-phone or use it online. My wife and I, we committed to only using our debit card for an extended period of time. It was really fascinating to go back and be able to see just how much money you're spending at places like the grocery store. What I had budgeted for the grocery store versus what we were spending at the grocery store ... Groceries, it's not just buying groceries. That's buying paper towels and cleaners, and detergents and -

Erik: Poppy seed muffins.

Jason: Poppy seed muffins. Yeah, a staple of my diet. It's an important component. A lot of people skip buying this. I tell you. I've met with people that have over a hundred thousand dollars a year of retirement income, married couples that are retired. They are getting in arguments about not having enough money because they're not living within a budget. Like Thomas Jefferson said, a small leak will sink a

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great ship. If you don't know where the money is going, you're never going to have enough.

Erik: You can't plant if you don't know where it's going. You can't make any corrections. You're planting bad seed, maybe. You don't know what it is that you're planting, but it will grow. Start with a budget. It's not always fun at first. In fact, it's pretty painful at first. After a while, you get some proficiency at living in a budget and gaining some control of your outgoing money. I've enjoyed it.

Jason: I have too and I actually learned a lot of this from Dave Ramsey. My wife and I took Dave Ramsey's Financial Peace University. You know, I'm a financial adviser. People think ... You went to Dave Ramsey Financial University.

Erik: I thought you're talking about everything you knew.

Jason: I love the opportunity to learn something, but one of the things I learned when we were learning about budgeting ... See, my wife is an artist. She has a very creative mind and I'm the nerd. I've got geeky spreadsheet mind. Even though back ... I've been married for 18 years. I would say we're just an awesome couple. We've been together for 22 years but married for 18 and I just love her to death. Boy, it was really challenging when trying to create a budget that somebody that just thinks about money so differently. One of the great things about going to Dave Ramsey's class is that he gives a platform where this isn't Jason coming in and saying, "Hey, this is Jason's idea about what we should do." It was Dave Ramsey saying, "Hey, here's a way that you can do this. Come together as a couple," and it's Dave Ramsey's plan. It's not Jason's plan. It's not Rebecca's plan. It's Dave Ramsey's plan and so I'm very grateful to Dave Ramsey for that.

Erik: Yeah, yeah. Very good.

Jason: Shall we go into number 3?

Erik: Yeah, let's do number 3. All right, number 3, not maximizing social security.

Jason: Why is there such a big deal, Erik?

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Erik: Well, we've said it before and it's worth saying again. Social security is a very powerful component of retirement plan. It's inflation adjusted so it's not going to lose that buying power the way other things do. It has a survivor benefit. If one spouse passes away, maybe the higher earning spouse, the other spouse will step up to the higher earnings level. It's tax advantage. At very worst, only 85% of every dollar will get taxed as it comes in from social security. It's a very powerful component. It's that guaranteed income. It's like the skeleton around which we can make a retirement plan, like guaranteed income. It can be maximized. There are ways to get more out of social security across your lifetime than others. I really want everybody to find the best social security claiming plan that they can. It's just the starting point for the whole retirement plan.

Jason: You know, we are talking about the website. We do have our calculator that you can use right on soundretirementplanning.com. It's a black box. I thought the right hand side is green that says, "Try our free social security calculator." It's a great tool because it can show what's at stake if you make a claiming error or claiming judgment. We found that the most value comes on this for married couples. This is really where we can show people how to receive an extra 50, hundred thousand, in some cases, \$150,000 of additional lifetime benefits just by understanding how the rules work. I agree, yeah. Social security is a huge component.

On the front page of the social security statements, it says that social security will represent. For some people, for many people, up to 40% of their guaranteed retirement income in retirement. Making the mistake, a 100,000-dollar mistake ... How many other times in your life if you do something wrong does it result in a penalty of \$100,000? That's a pretty steep penalty.

Erik: It is, it is.

Jason: One other thing. I wrote an article several years go for the local newspaper here talking about how a millionaire can pay zero dollars in federal income taxes in retirement. It was a really well received article so I'm going to put a link in the show notes. if people want to go back to Episode 040 ... and they can read through that article. Essentially, what it was is we help some people convert their Roth IRA or their traditional IRA into Roth IRA, their 401k into Roth IRA. The cool thing about that, this particular example that I used was I showed how this

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retired couple had over \$100,000 a year of income coming in. Their social security was completely tax free because a lot of people don't recognize this and realize this. Roth IRA, income from a Roth IRA, is not counted against the formula for determining how much of your social security is taxed.

In their case, they could have 40, \$50,000 of social security coming in and also have 60, \$70,000 from their Roth IRA coming and not pay one penny in federal income taxes arrear.

Erik: That's pretty incredible.

Jason: Yeah. If you're a couple of years out and we have the opportunity to do some strategic tax planning, and you don't like paying taxes ... I know some people out there, they can't wait to pay more money in taxes.

Erik: That's me. It makes me giggle and wiggle all over.

Jason: I just can't wait to figure out how I can pay a little bit more money in taxes. For those of you that don't, doing a little bit of planning on social security can show you how to maximize those benefits, and doing some strategic planning before you get to retirement so that you have more tax-free income ... a lot of people, that resonates with them. There's an article and we'll make that available on the show notes if people want to go back and read it.

Erik: Very good.

Jason: Erik, I'm realizing we're at that point again where we need to take our next commercial break.

Erik: Let's see that.

Jason: All right.

Speaker 1: Are you 50 years or older and have at least \$500,000 of investible assets? If so, this message may be beneficial for you. Are you confident that you will be able to retire and not run out of money? Are you concerned about higher inflation, higher taxes, and what market

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volatility will do to your portfolio? If you answered yes to any of these questions, then I encourage you to take advantage of this offer.

Jason Barker the author of Sound Retirement Planning and president of Parker Financial is offering a free report titled 10 Things To Know About Planning Your Retirement Income that may provide you answers to the above questions and much more. Call his office at 1-800-514-5046 to receive your report free of charge. Again, call now at 1-800-514-5046.

Jason: Alright-y folks, Jason Parker here with Erik Ramsey we're coming back at you. Today's episode is episode 040. We are talking about the 8 Critical Retirement Planning Mistakes to Avoid. Erik Ramsey we're talking about not maximizing social security, not understanding how the rules work. Luck favors the prepared mind and if you make a mistake because you didn't take the time to do the research who's to blame for that?

Erik: Well, the mistake maker.

Jason: You certainly can't blame it on us because we've been talking about social security and how to maximize it for over 5 years on this radio show. Darn it. The aim of education, I'll say this again, I say it all the time, the aim of education is not knowledge. You probably go to the Christmas party and talk people's ear off about how you need to maximize your social security. The aim of education is action. Do you know what the action plan is? Do you know how to do this? If not, figure it out. You know what? You've got people to help you so that you don't have to make this mistake. We can help you do this.

Erik: That's right. That's right. Or the aim of education is just to feel snooty but oh no, it's far better to take action like a smart action and reap the benefits, plant the good seed, grow that good crop, reap the benefits. Should we move on?

Jason: Yeah, what's number 5?

Erik: Number 5 is assuming unrealistic stock market rates of return.

Jason: Assuming unrealistic stock market rates of return.

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Erik: Right.

Jason: As you're planning you say well I have this ... Wait a second, are we on number 5?

Erik: We are on number 5.

Jason: Did we skip number 4?

Erik: We sure did.

Jason: Oh. For a second I was getting confused there. Let's back up one step here, Erik, we don't want to get out of whack with people. What's number 4?

Erik: All right.

Jason: For crying out loud! We'll do number 5 assuming unrealistic stock market rates of return next. Do you know how hard it is even to say that without stumbling over your words and now you're going to make me do it again?

Erik: I don't know. I know.

Jason: Okay, number 4, having debt. Having debt, our favorite. Yeah, there's that verse from the bible that says the borrower is slave to the lender.

Erik: That's right.

Jason: I don't know about you, but I do not envision retirement as slavery.

Erik: I don't want it to be that.

Jason: No, we're trying to create clarity, confidence and freedom, more freedom in people's lives. The reality is that when you owe people money you limit your options. As you talked to me about your retirement plans it never has anything like that. It mostly involves beaches in Hawaii and fishing and never having somebody looking over your shoulder demanding money. Maybe I'm unique this way, but I don't like anybody telling me what I have to do.

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Yeah, no, that's not the American way. Yeah, we're independent people. We're independent but interdependent. Independent but so interconnected which as we're talking about this idea of interdependence, years ago I was walking through the whole rain forest out here on Washington Coast and they have these little reader boards up, these interpretive signs that tell you about what's going on in the forest.

One of the things I thought was so cool and it's just always stuck with me when it comes to this idea of interdependence was these massive trees fall over in the forest. What happens is these little seedlings take place or take root in this tree that's fallen over. As you walk through this old growth rain forest you see these trees where these roots have grown. You can almost crawl through the roots. They're above ground. You're looking to think, "Huh, how did that happen?"

What you read about are these nurse logs and these nurse logs they fall, the trees start to grow out of the middle of them and over time the roots grow down into the ground and eventually the log that had fallen deteriorates and go away and you've got the log with the roots that you can see above ground. That's a nurse log.

Erik: Wow.

Jason: Yeah, the imagery of interdependence ... I think God had created the world in such a way that he makes things plain to use that we can see these principles at play all around us. To me that was one of those moments where I just like, "Ah, I get it." Even after the tree has supposedly fallen and died there is something amazing growing up out of it.

Erik: It's not out of the game.

Jason: No.

Erik: It's still participating.

Jason: We talk about debt and then we get off on this tangent of interdependence. Look folks, the bottom line what I've learned is that the people, the retirees that are in the best shape heading into retirement are those that don't have any debt. I know that you can justify having a mortgage because you get tax deductions and you can

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say, "Oh, I can borrow it 3.5 and earn 5% on my money." You can always make justification for anything you want to do. There's logical arguments for it too.

For me, personally, I mean at some point in your life everybody has got to draw a line in the sand and say what's important to them. For me, if I have to make a choice, I'm saying don't have any debt even if you can make a logical argument against it. For me it is more of a value proposition. What's my core belief? My core belief is that the borrower is slave to the lender and I don't want to be a slave to anybody. I don't want our listeners to be a slave to anybody.

Erik: Right. We've seen debt really hurt our country, people just letting it get out of control. I'd rather we had less debt.

Jason: We justify it. If we just will spend a little bit more now even though we don't have it, let's just spend it because that will fix our problems instead of paying the price and pony up and rolling up our sleeves and saying, no. Making more bad decisions on top of past bad decisions is not the solution to fixing the problem. I don't care how you try to spin that. That's just not the solution to the problem.

Unfortunately, the reality is, here I go on my soapbox, but it's our kids, Erik. I mean we have to be able to look at our kids and say because of the choices that we're making in our country we are going to see that your life in America as you're growing up will not be as robust and full as the life that we've had because we are choosing to make them slaves to their lenders. That's morally wrong. We shouldn't do that.

Erik: The sowing and reaping principle works even at the national scale.

Jason: Yeah, at the global scale.

Erik: Cause and effect is always going to be with us. It's just built in.

Jason: You can't get away from it.

Erik: Yeah, but you can make it work for you.

Jason: You can.

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- Erik: Sorry, I just had to. Moment of hope, you can make cause and effect work for you, that's the big promise.
- Jason: All right. Let's get on to your favorite topic, number 5, go ahead and say it again.
- Erik: Yes. I'm going to do it. Ready? I'm going to do a good voice, assuming unrealistic stock market rates of return. Was that ... I don't know if that -
- Jason: Yeah, that's really great.
- Erik: Oh thanks.
- Jason: Why do we say this? Why do we even talk to people about unrealistic rates of return?
- Erik: Because over time like since 1926 the S&P 500 has averaged returns of a little more than 10%. That's pretty good but that's over a very long period of time. People when they're setting down and getting their plan ready it's so much easier emotionally to have a big number associated with your assets. It's just so much easier. The problem is what if it isn't true?
- Jason: What if it doesn't work?
- Erik: Right. What if right after retirement there's a bad year and it goes down and then you're spending in that bad year? It can take so long to recover from that.
- Jason: Imagine if you had retired in 1929 right before the Great Depression hit.
- Erik: Well, no, I don't want to.
- Jason: Bad news. Or what if it was the year 2000 and it was right before the tech bubble burst and you had these lofty expectations for 7, 8, 9, 10% returns and those were what your projections were made on.
- Erik: Those would have been conservative at the time.

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- Jason: Yeah, very conservative. What if you retired right in 2007 before the whole financial crisis hit and you were basing your projections on 7% rates of return and the market drops 30, 40, 50% even though you were diversified?
- Erik: Right. That's bad news. That keeps you up at night.
- Jason: That's bad news. Yeah. Here's the better way to plan in my opinion, what I like to say is let's hope for the best ...
- Erik: Plan for the worst.
- Jason: Plan for the worst. Hope for the best, hope for 7% rate of return, don't base your plans on a 7% rate of return. This brings me to another idea that I was just thinking about this morning which is expectations. It is our expectations that lead to our disappointments. It's when we expect 7% and only get 3 that we think, "Oh, this is a crummy deal." If only expect 3 in the first place and we end up getting 7 that's a pleasant surprise.
- Erik: You start being grateful.
- Jason: Yeah, it really does. I remember a woman once said to me, it was right before thanksgiving. This was a lady. We had this morning workout class that we were doing. We were talking about thanksgiving and she said that there's all this pressure with families and there's all these expectations. What she said, I thought this was so wise, she said when she goes in to thanksgiving without expectations about how the mother in law is going to react or how her children should behave it's just a much more pleasant experience. It's when we set expectations for how people should be or how circumstances should be and then the circumstances don't work out that we fall into this.
- Erik: Right, right.
- Jason: At a time when we're supposed to be giving thanks and finding gratitude, instead we're setting false expectations.
- Erik: Yeah, you say, oh you haven't met it, and we ruin thanksgiving.
- Jason: I have a tendency to overcook the turkey.

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Erik: Oh no.

Jason: Yeah, I do this all the time.

Erik: All your dirty laundry today. This must be very cleansing for you.

Jason: I just felt like I needed an opportunity to bare my soul this morning but there is nothing worse than having an expectation for a really moist delicious turkey on thanksgiving only to have that Chevy Chase where you cut into the bird and the thing just explodes with a poof of smoke coming out of it. We're talking about unrealistic rates of return. I'll get off of this whole turkey talk.

Erik: I've never cooked a turkey. There we go. My -

Jason: You never cooked a turkey?

Erik: Never cooked a turkey. I loved cooking chicken and almost every ... I've never actually come around to cooking a turkey. I've always been around people at thanksgiving who are really great at it and so I let them do it. I'll do the barbecuing the rest of the year.

Jason: I bought a big thing to be able to ... We got off the subject. On the topic of stock market returns Robert Shiller Nobel Prize winning economist. He's been all over the news recently talking about the CAPE ratio, Cyclically Adjusted Price to Earnings. I can already hear my wife tuning out as I start talking in this technical financial jargon that she doesn't like me to speak in, but the reality is the market is looking pretty expensive by any means whether it's price to earnings or price to sales or whatever fundamental evaluation you want to look at the stock market on, it's looking pretty expensive right now.

Actually, in respect to history when you talk about the cyclically adjusted price to earnings, price divided by earnings adjusted for inflation over 10-year periods of time but looking back in the last 130 years Robert Shiller recently wrote that there have only been 3 times where the valuations of the market have been higher than they are today.

Erik: You mean more expensive?

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Jason: More expensive, yeah. If you're going to buy something, do you want to buy it at a fair price? Do you want to buy it on sale or do you want to buy it when it's most expensive? The stock market is really expensive. A lot of people right now, Erik, they're thinking about retiring. They're basing these projections on a 7% rate of return. The market is trading at all time highs. It's been running very hot for 5 years. Is it really realistic to assume that it's going to continue to run this hot when we can look back with 130 years of data and say that has never been sustainable?

Erik: It's dangerous. That is a very big risk to take when you don't have time to recover.

Jason: Now just because it hasn't been sustainable in the past doesn't mean it can't be sustainable in the future, right? Things change. Markets change. We printed a lot of money in this country over the last couple of years so maybe, really, what we're experiencing isn't ... Maybe it's more of an inflation component just based on all of this printing of money that we've seen happen, all this quantitative easy.

Erik: Right. Never the less, Robert Shiller who is pretty brilliant is thinking I'm going to pull out of a lot of American stocks. They're overbought according to him.

Jason: I don't know. Did he actually say he was going to pull out of stocks? Did he actually say that?

Erik: He was looking at Europe.

Jason: Oh okay. Was he?

Erik: Yeah.

Jason: I see. I didn't read that he was going to pull out of stocks. I remember him saying that he thinks they were expensive on a historical basis but maybe you read something I didn't read, I don't know.

Erik: Well, you had lunch with him yesterday but you keep talking about turkeys.

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Jason: No, I didn't have ... Boy that would be fun though. I wonder if we could get him as a guest on the radio show.

Erik: That would be pretty incredible.

Jason: That would be cool. We're going to have to work on that.

Erik: I'd feel shy.

Jason: Yeah, I wouldn't know what to ask him.

Erik: Hi Bob. I'm Erik.

Jason: All right, Erik. We're at that point. We need to take our next break. We'll be right back after this.

Seattle, Tacoma, Olympia, Gig Harbor -

Erik: And all the good people in Kitsap County.

Jason: Yes, we love the people here in Kitsap County.

Erik: And their pets.

Jason: We love these people tuning in to Sound Retirement Radio around the country too. I've had the wonderful opportunity, I've talked with people in Texas and San Diego and Michigan and Minnesota and Chicago, I mean all over the country. What I'm realizing is there's just really awesome people all over this beautiful country.

Erik: We kind of have the best job all things considered. This is pretty awesome.

Jason: Yeah, it really is. I get to meet some amazing people. Thank you for listening. Thank you for making Sound Retirement Radio your place for expert retirement advice and we'd love it if you haven't connected with us on Facebook, we just started a Facebook community. Our Facebook community is growing. We're a little over 300 people now and that's a place.

Actually on the Facebook community page recently we just posted a webinar. Not only do we try to bring in all of the information that we

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can that we think is going to make your life better but we are also looking to bring guests that we think can help. We recently conducted a webinar with an elder law attorney talking about elder law and estate planning. We recorded a webinar that was a special invitation that we sent out to people that have given us their email over the years.

We've posted that webinar as a replay on our Facebook page so if anybody wants ... Let's say an importance piece of a good retirement planning is estate and elder law issues, go listen to that webinar. Listen and maybe learn a thing or 2.

Erik: Time well spent. That's very important information.

Jason: All right, Erik. We talked about unrealistic rates of return. What is our next topic this morning?

Erik: Provided it's number 6 and I haven't miscounted again it would be not planning for long term care health costs or not planning for long term health care costs. I'm all over the place.

Jason: Can I get you another cup of coffee this morning?

Erik: Oh please, always, always.

Jason: This is a big one. The hard thing is that most of us are in denial. Yeah, do you know what denial is?

Erik: River in Egypt. Oh! Did you have the same professor? That was awesome. Okay. Wow. It's not actually funny but it's kind of cool.

Jason: I know. Man, we are on the same page. You're so sharp. I can't believe how fast your brain works.

Erik: I can't read but apparently I can talk. I don't know.

Jason: You're definitely the younger guy in the group, that's for sure. You've got this fast brain that I really value and appreciate. The reality is this Erik, nobody wakes up every morning saying that someday my health is going to deteriorate. Someday I'm going to end up with Alzheimer's,

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dementia, Parkinson's, MS. I mean we would be horribly depressed people if we believed that that was our future existence.

Instead of thinking okay, this could happen, what we say is ... We tell ourselves these stories. We say, well, I eat right, I exercise, my parents never needed long term care so as a result I'm just not going to do anything about it. I'm not going to think about it. I'm not going to plan for it. Bam, that can be a big crack in somebody's nest egg.

Erik: You're planting seed. Not to mix too many metaphors but you're planting seed with this. Something is going to grow. If you're not prepared, man, those prices are ... It's very expensive.

Jason: Do you remember what the costs were here just in Washington State?

Erik: On average it's about 8500 a month now.

Jason: Yeah, that's on average. We know, personally know people that have been to nursing homes here locally that have spent \$500 a day, \$15,000 a month to be in a nursing home facility. We've also seen people that have been in assisted living facilities that have spent as little as \$4000 just depending on the level of care and whether you have a private room and what that looks like. The bottom line is if you're spending \$8000 a month and your well spouse is at home and has to maintain their lifestyle I've got to tell you that's going to take a pretty big bite out of most people's nest eggs.

Erik: Well, probably one of the most biggest most important factors is the increasing rate of long term care expense. If we say wow, it's growing yearly at about 4% each ... 8500 is going to increase at maybe 4.5% for the foreseeable future? Give that 20 years to grow that is expensive.

Jason: When people hear that 4.5% they say, "Yeah, but Jason, you're always talking about inflation being 3%." Well that's true, overall CPI inflation may be 3% but if you just look at medical cost, medical cost had been increasing at a rate greater than inflation. When we're making these projections to conservative I think it makes sense to use a little bit higher number. Genworth Financial they're one of the leaders in long term care insurance. On their website they had a

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recent study that shows that 70% of people over 65 will need some type of support over their lifetime, 70% of people over 65.

Now let me put this in other terms for you. If you knew that there was a 70% chance that your house was going to burn down I would insure that thing. Would you insure it? Yeah, because you wouldn't want to have to go and dip into your entire retirement savings to rebuild your house, right? That's a very high probability for a married couple for 70% of people over age 65. I'm a believer in long term care insurance and I know that a lot of people don't like hearing me say that because none of us like to buy insurance.

I own 2 long term care insurance policies. I have to tell you, I don't like paying for it. Every year when the bill comes in the mail I write that check and it just makes me cringe, but the other thing I'm reminded of is the reason that we buy insurance. It's not because we like to buy insurance, it's because we care about people. There's people in our lives that we love and I just know that when that day comes, I hope it never does, I eat right, I take care of myself, I exercise.

Erik: You don't eat the poppy seed muffin if it falls on the floor.

Jason: I do eat the poppy seed muffin ... Well, right. I don't want my kids to have to help me in the bathroom. I don't want them to have to give me baths. I don't want them to be in a position where they have to be my caregiver. If they want to help, fine, but I don't want them to have to help. That's why I buy insurance because I just want to know that my family will feel good about hiring the people that they need to hire to take care of me if that happens.

We've still got 2 more that we got to get through and we don't have a whole lot of time here.

Erik: All right. Moving on, number 7, not planning for inflation. It's such a slow moving train as you call it. Creeping up at 3%, maybe 1.5% one year but more than that the next year. It's not a huge and dramatic thing. We don't notice it happening and accruing so much, but let me tell you, you give it 20, 30 years of retirement that is going to eat away any fixed income.

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Jason: Go find somebody that retired with a fixed pension from 20 years ago and ask them how they feel about not having an inflation component attached to that.

Erik: You'll get some stories.

Jason: Boy, you are going to get an earful because they will tell you about inflation. CPI, Consumer Price Index doesn't take into consideration things like energy cost and food. That's what we're using to gauge inflation. Now, I went to the Bureau of Labor and Statics because, again, I'm kind of a nerdy numbers guy and I like to build my spreadsheets. I took the inflation data from the Bureau of Labor and Statistics and I ran the numbers and over the last 100 years the CPI has averaged 3.3%. Over the last 10 years CPI has averaged 2.3%.

The Federal Reserve says that they have a midterm inflation expectation or proposition where they want to see an inflation target, that's the word I was looking for, inflation target of 2%. We know that the Federal Reserve wants your money to have less purchasing power in the future than it has today. To not make some assumptions about needing more income in the future, boy, that could be a recipe for disaster. We want you to thrive in retirement. We want you to have a better lifestyle, higher quality of life in retirement, not less, more freedom.

Erik: We don't want you to have to say, "Hey, we can visit the grandkids in the early years during Christmas but by the time we get to 75 they're going to come visit us because we're just not going to have the money to go anywhere." That's a crummy deal.

Jason: It is.

Erik: We can fix it. Why? Because you can plant good seed and you can create a plan.

Jason: If you're a visual person you can see what a good plan looks like by going to Sound Retirement Planning and watching Sound Retirement Planning blueprint. It's the blue one.

Erik: Yeah, the black one is the social security.

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Jason: We're almost out of time. What's the very last one that we have to cover, the eighth topic?

Erik: Number 8 is not having a plan for when one spouse dies. Often we see people like the husband might have the big pension and it's taking care of the needs. If the husband dies where does that leave the surviving spouse? Can she survive without that pension if it doesn't have a survivor benefit?

Jason: It's not just the dollars and cents thing either, Erik. One of the big concerns I know that I personally have and a lot of men have. It's not always men that do the finances in the home, but oftentimes when it is they have this ... My wife is an artist, she doesn't really care about personal finance all that much, but if anything happens to me I want to know that she's going to be able to continue on and know what the plan is and know that there's a game plan and where does she turn to go.

With that that was our eighth big mistake. Let's just recap them real quick. We have: Number 1: Not having a cash flow plan. Number 2: Not having a budget. Number 3: Not maximizing social security. Number 4: Having debt. Number 5: Assuming unrealistic rates of return in the stock market. Number 6: Not planning for a long term health care cost. Number 7: Not planning for inflation. Number 8: Not having a plan for when one spouse dies.

Folks, you've been listening to Sound Retirement Radio. You can find us online at Sound Retirement Planning. I'm Jason Parker and ...

Erik: I'm Erik Ramsey.

Jason: We are signing out.

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