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JIM: Welcome to today’s show. Today I have a special guest. Actually Angela in my office had come across several articles written by our guest today talking about the importance of really having a professional team around you and being real careful about the do-it-yourself self-help books. Those can be helpful. You’ve got to make sure you get professional advice and things are customized to you. Joining me today is Michael J. Markey, Jr., who is the cofounder and owner of Legacy Financial Network, and he's been featured on several publications, nationally recognized publications. He has a financial educational show that he does every week and has been very successful in the business and has written a lot when it comes to getting professional advice. I want to welcome you, Michael.

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MICHAEL: Hi, Jim. Thanks for having me on.

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JIM: We had talked a little bit before we started the program on your philosophy. You're quite a bit in sync with me that the title of the show is Real Wealth. We define real wealth by values, not necessarily valuables, and I think you share that philosophy.

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MICHAEL: Yeah, I think we absolutely do. Just to share with everyone quickly, one thing we really hit at our core here is that clients that we have with $10,000 or $10 million because we have both, they're not different. Both of them spent 20, 30 years accumulating what they have and it’s what they’ve got. It’s what they have to protect, what they have to plan with. It’s partly why I bought out my business partner about two years ago because quite frankly as a planner we certainly kind of narrowed it down to about $70,000, $80,000 of assets. Anything less than that that we bring on because of the amount of front-end time we spend, the way we’re only fee-based with that particular portion, and the other things we do for clients, it’s certainly not a profitable relationship for us but what they bring to the table, what they’ve saved is just as important as somebody else.

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JIM: That’s so true. One thing that we have going on in the industry is a real transition. I mean we all hear the ads if you have a half million or more, call me. That sometimes can be disappointing for me to hear but everybody needs help. Everybody should be getting advice. One of the things that motivated me to do this program is Dave Ramseys and Suze Ormans of the world offer a lot of advice. A lot of times that advice is one-size-fits-all. It’s not customized to the situation and a lot of times they're just trying to sell their books and telling you to do it yourself and stay away from professional advice. I know you’ve written a lot on the subject. Why in your opinion do financial do-it-yourself books fail?

02:38

MICHAEL: Well I think one of the big reasons they fail is the ability to see the overall big picture. It’s just like a diet plan quite frankly. If you want to lose 10 pounds and you read a do-it-yourself diet book, how many people do we know that that has actually worked for? Instead what happens? We find out well I should eat broccoli three times a day and I need to have ice water with lemon and so the results start to work and then we hit a plateau or maybe we have a bad week or we have Super Bowl Sunday and you have too many hot wings and beer and balloon back up and you gain back everything you lost. Then what happens? You fall off the horse and it’s harder to genuinely get back on that horse and the same thing happens with finance. When you do it yourself, that’s fine but it’s not what you do. You’ve got a different job, hopefully. That’s part of the plan right. If you're working, you're spending 40, 50, 60 hours working. You’ve got kids. Maybe you’ve got grandkids. This by no means is going to be your top priority yet it’s going to be along with social security one of your biggest assets in retirement. Everyone says well houses are your biggest asset. I think that’s baloney. We've heard that disability insurance – and I'm not saying you have to have it; that’s a totally different conversation – but the disability insurance people for years have said no your largest asset was your ability to make money and then we get close to retirement. Well our largest asset then is our ability to collect on social security as well as our retirement assets. I just don’t understand why you would, something that valuable why you would give a part-time job to yourself for that. Yeah it means more to you than anybody else. Most people aren’t going to have that wherewithal to be able to (a) know what to change, when to change it, and (b) to be able to stay the course when they should stay the course.

04:10

JIM: You know the analogy you used with reading a book about dieting, most people that are successful in getting in shape and staying in shape, they have a personal trainer, someone that keeps them accountable and someone who's maybe not emotionally as attached to the food that you will eat as a person on the diet. They can look at objectively and just say here's what you should do.

04:32

MICHAEL: Right.

04:33

JIM: If you look back at the studies, when you look at the amount of money that goes into funds when the market is high and the amount of money that leaves the funds when the market is down, it’s real obvious that emotions are driving a lot of people’s financial decisions and almost like having a financial coach that helps keep you staying the course and on track could be just as important as the knowledge. I want to ask you and again I hear Dave Ramsey all the time, I have people come in and talk to me all the time about debt and I know we share some feelings about that. I look at debt, if you're on top of it in control of your debt, that’s one thing but having everybody get out of debt as quickly as possible at the expense of anything else, it just seems that that seems to be his message. When we’re in an all-time historical low interest rate environment, does it really make sense in your opinion to get rid of all your debt as quickly as you can?

05:29

MICHAEL: You know what I don’t get with Dave is times change so why isn’t your teaching? The only thing I've found in his teachings that has changed is he no longer says that you’ll make 18% on your money. He used to say that you should count on 18%, 14% is easy – his words, not mine – and that most mutual funds will actually do 20% to 30%. He's revised that down to 12% but specifically with the debt, no I think we’re out of touch with that. I mean here's the problem that I have with Dave when he starts talking about debt and we’re starting to kind of publicly challenge him to stand up in front of a group of advisors, kind of like a debate type of scenario or environment between the two of us because here's the deal. You think about when we start talking about debt that if we can get out of debt and eliminate all those payments, what is the biggest assumption he's making on the back end? That you're going to have the financial responsibility to put that money away and to start saving. That’s what his entire plan is built on. If you can assume they're going to be responsible at that point, then why on earth can't we assume they're going to be responsible now, paying three times your minimum payment, four times your minimum payment, five, whatever it is that you have, making this bare bones. You're going to eat he says beans and rice. I do find him entertaining when he says well you're not going to see the inside of a restaurant unless you're working there. We’re talking about some strict financial disciplines that we’re assuming people are going to be able to adhere to. We can assume they can adhere to those but we can't assume that they can adhere to an actual financial plan that utilizes some debt? That doesn’t make any sense to me. I saw one couple where – and I wrote about this but it was just briefly – they had $200,000 of income and they had $75,000 in debt. He recommended liquidating $100,000 IRA to pay off this debt; $200,000 of income, we know that they're already in the 28% tax bracket. To liquidate that extra $100,000, that’s going to bump them up. It’s going to have them pay the extra Medicare tax and ObamaCare tax. I mean we've got some big issues, some things that we can't just ignore that are going to get tacked on and he did this because he said it was the $75,000 that’s drowning you. That’s why you guys haven’t been putting away. Seriously, $200,000 debt and you think it’s the $75,000 that’s drowning them? No it’s bad decisions. There's a boat somewhere or a cottage somewhere.

07:34

JIM: I remember hearing one time and I don’t think it was Dave Ramsey but it was one of the other talk show hosts and somebody called up. I think he was 56 or 57 years old. He says I owe $75,000 on my mortgage. I've got $80,000 in my 401(k). My employer said I could take the money out if I want. I'm planning on retiring in a couple years and I just would like to get the house paid off and I remember the answer as well you're under 59-1/2. You might have to pay a penalty. Now if this was a 401(k), there is a way to pull money out at that age penalty free so the first thing I heard was they didn’t know about that. Then the second thing I heard is well even if there is a penalty, getting out of debt is probably one of the most important things. Well here the guy was saying he was retiring and if he took all the money out of his retirement account and if this were an IRA and not a 401(k) because I see a lot of times clients will mix and match. They may have an IRA that was a rollover from a 401(k) and they still call it their 401(k). If it was an IRA and they pulled the money out, they would have had the 10% penalty plus he's working. It would have been higher brackets. Whether or not he had the penalty or not remains to be seen but if he just pulled that money out and they didn’t do withholding, he would have paid off the house. He wouldn’t have enough liquidity left to pay the tax and they may not have even known about how much he was going to owe in taxes had they just drawn the money out and if they did the withholding, it wouldn’t have been enough money to pay off the house anyway. I look at that advice and I'm like oh my God, they don’t even really know the situation, the goals, the assets that the people have and yet they're sitting behind the microphone. They're not accountable to that advice and this person might be making individual decisions based on just a sliver of information from somebody who's just saying oh yeah that sounds like a good idea to get out of debt. I think – and don’t take this the wrong way – I think debt can be a real problem and people need to be in control of their debt and they might need to have a plan on how they're going to retire that debt and I think for some people that the Dave Ramseys of the world are talking to that have been really irresponsible with their credit cards, they might need that message of whatever it takes get out of debt and get focused on that before they can take the next step but for the vast majority of people, it’s just having a plan, incorporating the debt and the savings and everything into a plan that gets in alignment with your goals and I think you're going to be much better served. I think that’s what you're saying, right.

10:00

MICHAEL: Well yeah and you talk about the 401(k) and a lot of people don’t understand whether they have an IRA or 401(k) but that’s another area where I have a problem with Dave is he’ll tell everyone who calls in and says, Dave, I left my employer three months ago. What do I do with my 401(k)? His very first thing without asking income, without asking age is all 401(k)’s should be rolled out. They all should be done into an IRA, no matter what. We've got big issues there. I mean first of all there are some taxable benefits if we had employer stock in that 401(k) to not convert it. I met a couple here maybe a couple years ago. They were following an ELP’s plan and they were going to have the house paid off. He was working longer than he wanted to work. He was now going to work until I think it was age 70 for this extra income just to pay off the house.

10:40

JIM: Michael, just before you go on, explain to the audience what an ELP is.

10:43

MICHAEL: ELP is what Dave Ramsey calls an endorsed local provider. That is why, first of all, you’ll never find an ELP who is an IAR or an investor advisor held to a fiduciary standard because we can't take endorsements. They're all going to be commission based. I don’t think one is better than the other. I just think they're different and there's a reason both exist but it’s somebody who basically talks to Dave. Dave says yes I've got leads in your area. I like you enough or trust you enough. I will pass those on to you but you're going to pay me a fee. That’s essentially what an ELP is. They were following this ELP’s plan and I just did a projection for them because here they were working longer than he ever wanted to work. They were going to have a $300,000 house with no debt – that’s cool, great – but about $150,000 in assets. I go based on your spending, you're going to go through that $150,000 in I think it was about nine years. I go you're going to be in your late 70s and at that point still have to get rid of the house or get a reverse mortgage or a line of credit, something. I go you’ll have worked all that time to do that and we still have a problem because we didn’t focus on an overall plan. We focused on this one little sliver.

One of the things that we teach people and I'm a big advocate of it and it’s become more defined as I've been writing these Ramsey columns now for a little over a year. The thing that’s hit me is that the destination of every dollar you ever have can only ever be one of two things. Somebody gives you that money, whether you save that money, whether you earn it, you find it on the side of the street, every dollar will end up its final destination will be one of these two things. You're going to spend it or you’ll give it away. That’s all you can do with money and when we start to realize that all you can ever do with money is give it away or spend it, it’s going to change your philosophy on things. You know I had a client where again they wanted no mortgage but they also told me that because it was a second marriage, each of them had five kids. They go we want nothing in the estate ideally because we just don’t want them fighting over it and they were about to buy a cottage and I said why on earth are we paying cash for the cottage. Well I don’t want the payment. I understand that but you’ve got great credit I presume and also by putting this money in there, all you're doing is guaranteeing that you will leave an inheritance to somebody because every dollar we ever have, whether it’s in a house or in a bank, it’ll be given away or it’ll be spent. That’s all you can do with money.

Dave talks about financial peace a lot and financial peace, where Dave and I would agree, is that financial peace isn’t achieved by the accumulation of assets. There are a lot of people with assets who don’t have enough income or too much debt. They're broke. Whatever it may be, they don’t have financial peace. Where Dave and I strongly disagree though is that financial peace is not achieved by the elimination of debt. I meet people all the time with no debt, no house debt. They’ve got $50,000 to their name and $1300 in social security. Guess what? They're scared that it’s not going to be enough income. They’ve got to make some changes. They’ve been debt free for 20 years. They didn’t save as much as they probably should have. We've got a mess on our hands but financial peace can only then be achieved by the accumulation of perpetual income and this is a big deal to me. I've had advisors argue with me. Oh, Mike, it’s not income, it’s assets. I said really?

I was speaking to a group one time and I said I want you to imagine a 40-year-old couple. Maybe you're old enough to have kids in this age and I want you to imagine that the wage earner, whether that’s your child or not, brings enough home and in your area that might be $80,000, it might be $300,000 depending where you're from, but they bring enough home that their spouse and their beautiful children, they can stay home. They’ve got a million dollar house. It’s paid for. They’ve got a million dollars in 401(k) money or IRAs, whatever, retirement savings. I go how many people don’t think that that couple has financial peace right now? How many people think they're worried about money? Great job, great income, no debt, wonderful good amount, especially at 40, good amount saved, and everyone goes yeah they’ve got financial peace. Mike, what's your point? I go now I want you to imagine this. I want you to imagine that that wage earner comes home tonight and he looks at his spouse and goes, hon, I lost my job today. It’s for cause. I don’t agree with it. I think we should fight it but it was for cause, which means my final paycheck is going to be on Friday. I'm not going to get a severance package or severance pay and I don’t even get unemployment. I go I want you guys to raise your hand right now to tell me how many people think that that couple still has financial peace and not a single hand was raised. I go that’s weird. You just told me I was wrong. You told me assets and debt can do it yet nothing changed with their assets or debt. They still have good assets. They still have no debt but when we lost that income, that financial peace was stolen from them.

That’s why it’s so important to have an advisor because quite frankly I'm a fan of annuities when used the right way. I'm not a big fan of high cost products. I think it’d be interesting if insurance companies, we see a 4% fee and you had $400,000 that you had to sign next to a $16,000 annual cost, I think it would be hard to stomach that if it wasn’t just hidden or baked in, but I do think that annuities are good tools from the standpoint that it’s a contract between you and an insurance company for a future stream of income and that’s what retirement is going to be. You need income. It’s not asset level that’s going to give you financial peace. It’s income level and that being said, in our industry as well as I'm aware of at least, you can't call an 800 number and buy an annuity. They don’t allow that kind of planning. To find out whether or not that makes sense for you, you need to work with an advisor who does that. It’s your money.

15:33

JIM: We’re going to take it to a short break. When we come back, Mike, what I’d like to talk about is a little bit about some of the solutions because you made the point that it’s about income and not assets and I really agree with you on that. We’ll be talking a little bit about how do you build that income stream? Please stay tuned.

[BREAK]

16:09

JIM: Welcome back as we continue to visit with Michael J. Markey. Before the break, we were talking about how income is more important than assets, especially in retirement planning, and a lot of times we as Americans value the balance sheet more than the cash flow sheet but yet for most people they’ll discover when they're in retirement cash flow is everything. One thing that I think really helps relay this more than anything is I know a lot of people look at their home as an asset and I've always looked at it as a liability and what I mean by that is the home does not produce income. The home is an expense and even during the heyday in my area, if people were really truly honest with themselves and they looked at the cost of their insurance, their property taxes, their maintenance, the utility bills, and all the stuff that it costs to own a home, even when home prices were going up, most people found that they didn’t truly make money on the house and what I've always tried to get people to focus on while they might have a nice home and there's nothing wrong with having a nice home, it’s a quality of life issue. Don’t fool yourself into believing that it’s an asset and all we needed was 2007, 2008 and on to happen where a lot of people got stuck with a house that they were planning on being able to sell or downsize at retirement and that was going to be their retirement and that didn’t quite work out. Let's talk a little bit about income. You talked about some different resources that people have. Obviously there's pension plans, there's social security. How do people get dependable income?

17:43

MICHAEL: I think social security is a big one. I really do. I think we discredit it too much a lot of times in this country but social security for people when working with the average married couple that are coming through our system, they’ve got a lifetime expected benefit of somewhere between $700,000 and $800,000. I mean when we start thinking of $700,000 or $800,000 for many people out there, that’s greater than the value of their home. That’s greater than the value of any of their retirement savings yet it’s one of those subjects that are oftentimes ignored. I think the taxation on your social security benefits is huge, using assets in a way to help minimize the taxation on those social security benefits. That can have huge impacts on the success of a plan.

18:20

JIM: That’s the key. At the end of the day, you need to have a plan. You need to work with a professional team and build a plan that’s customized to you where all the factors are considered. What is the retirement lifestyle that you want? Where are you at today? A lot of times, it’s about dealing with priorities. You mentioned folks that didn’t really have a lot of money saved yet they didn’t have any debt but they made good money but they really didn’t do a good job of saving and maybe there's not so many years left. A lot of times, it’s because their priorities were maybe a boat or a lake house or a vacation and there's nothing wrong with doing that stuff but if you don’t have a plan and know what impact that’s going to have at the tail end when you're in your 30-year vacation we call retirement, if we haven’t planned appropriately for that, it might be a real culture shock trying to deal with our limited means because we didn’t care of things on the way.

19:13

MICHAEL: Well I know you talk a lot about the role of the advisor and I guess I'm a little biased because I certainly agree with that. My career isn’t built on working with 30-year-olds and 40-year-olds but I've certainly seen my share of mid-50s and mid-60s where that last five years out from retirement or 10 years from retirement who just aren’t where they want to be. Then we tell them the math is the math. If it doesn’t look the way you want it to be, then the only one who can change it is you and I go a lot of times we’re saving. In my opinion, we save backwards and what I mean by that is even like in a Dave Ramsey plan, he tells you okay you're going to have he calls it a purpose for every dollar. Every dollar you're going to know where it goes and you're going to budget and then part of that’s going to be my $300 going toward my savings or whatever it may be. One of the big problems there is he believes in not saving anything while you're trying to get out of debt. Part of the point of having the advisor is some of the psychological things we do ourselves. We've seen huge impacts telling people stop calling it a checking account and savings account. What I want you to think of it as is a savings account and a spending account. Instead of putting everything in checking and then if something is left move it to savings, let's do this. If you’ve got $4000 that comes in a month net and you're telling me, Mike, you know I'm looking at this. I'm not saving right now but I should be able to. I should be able to save 10%. You’ll find out what's important to you. Let's put that $4000 in savings and then move $3600 into spending. Quite frankly, the goal of that is at the end of the month that you have. If you’ve got a $5 minimum, have $5. I don’t want you bouncing checks. That’s ridiculous but it’s called a spending account for a reason and what's been really neat is I've had so many stories that have been shared with us that, Mike, I told you we couldn’t save and you kind of were blunt with us and said 10% and I started putting it in savings first, then moving it out to spending but next thing you know, we got rid of things like I talk about the Friday night dinners a lot because we all feel like we’re entitled to it. Well I worked really hard this week. We all work really hard and at the end of the week, we’re tired and it’s going to be easier to get pizza and this and that. Well I've got young kids and so next thing you know, pizza unless you're getting hot and ready turns out to be $50, $60, $70 and you go okay well if it’s $70 and I do that 50 times a year because we earned it, we deserve it, that’s $3500. That’s a big deal. If you're living paycheck to paycheck and telling me I can't save, we just found $3500 by eliminating pizza. Then you start to think about that and you go well now if I took those pre-tax dollars, for some people that might be $5000 that actually goes away, 10 years in you’ve got $250,000 today, over 10 years out of retirement, you go well I can't add anything to it. We just eliminated pizza. Think about it, pizza and 10 years from now we've got $50,000. I'm not talking about growth. I'm not saying well if the market does this or the market does that but we just increased the size of your nest egg by 20% by eliminating pizza. That’s a huge difference. We've got to find out what's important to us and I'm not saying everyone should get rid of pizza. We didn’t have cable for years. Only reason I got cable again was because I had radio callers saying I didn’t know what it was like to tell people to get rid of their cable. I got it for one year just so people can't say that to us anymore. What's important to you?

22:08

JIM: I've got to re-echo what you're saying because I got rid of big dish satellite. It cost me $230 a year and I had a gazillion channels and then there was nobody left to service it so I’d have to go to small dish and to get the same package would have been $200 a month, not $230 a year so that gave me sticker shock and that was right at the same time digital TV came available. I was able to get 55 channels on digital TV. Now I miss some of the stuff that was on there but not enough to spend $200 a month. You talk about it. There's $2400 a year. Give up pizza and now we’re already at almost $6000 a year of savings and with the compound interest, if I do that over a 30- or 40-year working career, that gets to be some pretty significant money. We’re at the end of our time. What I’d ask you to do, Mike, this has been fantastic. What's one nugget you’d like to leave people with? After listening to this program, what do you think they should do?

23:02

MICHAEL: Yeah I think the one thing that everyone needs to do is do your budget backwards. See what your income is. Have a real conversation with yourself and say if I've got $5000 coming in or $7000, whatever that number is, your net income, what hits the bank, if you're not saving or you are, just say what should I be saving? If I've got $5000 and I feel like in order to meet my goals that number needs to be $4000, don’t come up with a number for budget on what could I eliminate to get there. That’s the backwards way. We need to do it saying I get $5000. There's no reason I can't live off of $4000 and then start chopping things off because you're going to find out what's actually important to you. For my wife and me, when we got married, we didn’t have cable. There were a number of things we didn’t get because here was the number we wanted to be at. I'm going to tell you what. We learned that we really didn’t miss anything. It’s been weird getting cable. Now all of a sudden there are always things that we didn’t know we didn’t have that we really needed. Those marketing companies do a fantastic job but I think that’s a big deal. I mean the number one indicator of wealth is how much you save. If you don’t have a coach holding you accountable and being a little blunt with you sometimes and saying hey, you’ve got $80,000 income, you didn’t save a penny last year. Maybe it was fun, maybe it wasn’t but this isn’t the path that you’ve shared with me you want to be. It’s your money, do what you want but if you really want to be where you told me you want to be, we’re not going to get there saving nothing.

24:11

JIM: Absolutely. Well thanks, Michael. Hopefully, you’ve inspired a few people to maybe make some minor adjustments so that they can have that retirement that they're hoping for and see it become a reality. Thanks again for joining us. One last thing, I know you’ve written a book that talks about some of these issues, Fireproof Your Retirement. If someone wanted a copy of your book, where do they get that?

24:32

MICHAEL: Go to Amazon.com. It’s available on Kindle as well. We've been getting a lot of sales on Kindle and one nice thing about that too is we’re big on trying to pay it forward and give it back so any of the proceeds from that we donate to the local fire department.

24:45

JIM: That’s awesome. Thanks again, Michael.

24:47

MICHAEL: Thanks, Jim.

24:48

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and remember if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.