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JIM: Today, I have a special guest, Frank Lojewski. I met Frank through some industry meetings that we both attend and he really struck me with his unique philosophy. Not only has he been a top advisor, he’s taught and moderated courses on foundations and financial and senior planning. He’s been a guest expert on the Wealth Channel and many other things that Frank has presented. When we were talking about having him on this program, one of the things he said was get a health coach and that was something really unique that I’ve never really heard before, but it really made a lot of sense to me because I remember just watching the Super Bowl here recently. They talked about all these players have life coaches and financial coaches and all these things to try to keep them on the straight and arrow but they’re dealing with 20-something kids, so we hear about some of the problems, but as we approach retirement, Frank has really had an emphasis on health and I know I for one can really learn from you, Frank, because I may not be the optimal health specimen, but I do know and I’m aware of some of the things I need to do to correct some things in my life. Tell me a little bit about how you discovered the importance of health and why you think that’s so integral in doing financial planning. That seems a little bit odd that you would marry those two things together, so how did that come to pass and what you’re telling clients?

1:20

FRANK: Thank you Jim. I’m very passionate about that subject, but first of all I can’t help but really express my appreciation for all you do in our industry, as well as Natha (SP?). I can really say that a lot of the top colleagues we’ve associated with in our industry, as well as and especially many of the clients out there who are listening, I think it really says a lot about them to be so proactive in this area. As far as combining the relationship between the two, I think they’re so amazingly connected that it’s rather ironic. I keep thinking back to Mickey Mantle, the famous Yankee legend. When he was real young he was only expected to not even make it through his 40s. He had a few health ailments he was born with but he was always a great athlete and naturally as history noted he played and he lived a lot like a rock star and all the sudden he wakes up with this ailment in his early 60s and his famous quote he said, he said, “Geez if I had known I wouldn’t live this long I would have taken much better care of myself”, and this is an example of one of the biggest challenges, Jim, I think that many of our clients are facing, especially those who never want to run out of money and those that want to really enjoy and have a quality life during retirement.

2:30

JIM: As you were telling the Mickey Mantle story, I remember one of our past guests we had on, Kelly Ferrin, who is a gerontologist, and she shared the story of a GM executive who had a massive heart attack or some type of heart problem and he managed to survive that when he was two years away from being vested in his pension, but he had done really well for himself as a General Motors executive and he decided you know what my days are numbered, I’m going to sell all my worldly possessions and sail around the world. That was a dream that he had and he did that, but he also started living right, started eating right and exercising and all that, and unfortunately by retiring two years shy of being vested in his pension, he had no pension. Because he lived a long time, he went through all his assets and he was in such good health, as the matter of fact in his 90s he was a senior Olympic champion in the hurdles, which is just about unheard of, but he had nothing but a social security check and he was living pretty much hand to mouth, so what you’re describing with Mickey Mantle and the importance of this stuff, a lot of times people don’t realistically look at their health and the impact that it will have on the financial stability. You talk about a health coach. Tell me a little but about how you discovered that and how that could benefit people.

3:48

FRANK: I think it can benefit them greatly. It’s amazing. When we’re planning and doing the right type of holistic planning where we’re using math and science to create greater certainty so people have a greater clarity in their futures and how and why they can overcome any of these obstacles, including longevity risk, the problem then becomes, and I’ve experienced this even more recently, people are looking and saying to themselves, you know my health is kind of average. I was rated when I applied for life insurance, but you know what I’d like to really be around and live to enjoy seeing some of my wealth transfer, having me enjoy it, and really having a quality of life I’ve always worked hard for and I think they have a greater appreciation when someone can guide them like we do financially as far as proactive advisors. We need to bridge that and do the same thing with our health because you can’t, Jim, have one really without the other. You just gave a great example of that right there and if we take someone for instance who really stresses just having a healthy life and they don’t necessarily take care of their financial end and utilize their advisor as a real financial coach, which we’ll talk about a little further in a few minutes, then what happens is we approach one risk that I know we can’t ignore it and we just mentioned longevity risk. It’s such a big multiplier that just the rise of living costs we have to face alone over at least three quality decades of retirement, think of it like this, Jim, if living costs increase three times, which is very possible, then it’s liking having two thirds of a loss on the same money that you’re already living off of. It’s almost as if you called a client, Jim, and said hey you have a 67% loss on your portfolio and not only that it’s permanent, it’s not going to come back and it will continue to increase, you’re probably going to have someone that felt like they had a heart attack.

5:33

JIM: So basically what you’re saying is the purchasing power would be eaten up by that much. For listeners out there maybe you’ve heard us mention on the program before, heard it mentioned in school or something like that, but the rule of 72. I look at Consumer Price Index. They tell me it’s 2% or 3% but then they take out things like healthcare and groceries and all the stuff that most people in retirement are spending the majority of their income on. There is also a CPIU, which doesn’t take as many of those things out and they’re showing inflation rates of more like 5% or 6%, so if you take 5% inflation divide it into 72, that means every 14.6 years costs are doubling, so if you live 30 years in retirement your cost might double twice, so if it costs you let’s say $40,000 or $50,000 a year to have the lifestyle that you want if you have that type of inflation that means in 28 years it’s going to go double once as 50 to 100, double twice is 100,000 to 200,000, so it really has a devastating impact, those rising costs, and it really is something to plan for if you’re going to live a long time.

6:40

FRANK: I also agree with your friend, Van Miller, who often states that a lot of these current inflation rates you just alluded to, Jim, they’re really artificially suppressed. Part of the reason is to help government afford some of this debt problem we’re already dealing with but when we obviously face over three decades, I think real inflation, and I always think of it as like holding a beach ball underwater. I mean in order for things to gradually resume to any normalcy, the interest rates have to go up. That’s not trying to make a prediction; it’s just seeing exactly what’s happening. We have to prepare for the likelihood that the 2% or 3% artificially deflated inflation rates you were just referring to that they obviously could be much higher and we don’t want to be caught by surprise by anything like that.

7:23

JIM: So what about volatility risk? What do you think about that? I mean we’ve seen even this year already I just remember not so long ago the market started out down 400 or 500 points and by the end of the day it was only down 150 and then we start up and it’s down. It seems like we’ve got more volatility than ever, at least the way the media portrays it. What do you say to people about whether or not they need to prepare for that or what should they be doing?

7:46

FRANK: Well again, it’s back to longevity risks. The longer we’re invested, especially later in the game, Jim, as we get to the I call it the distribution phase, then volatility becomes a real game changer here and part of the reason, Jim, is because think about this. When the stacks are that high, do investors as far as how they behave, do they overperform the market or do they underperform the market? What’s been your experience?

8:10

JIM: Usually they’re under-performing because they always talk about buy low and sell high, but when the market’s low people are panicking and getting out, when they talk to their neighbor who just made a gazillion percent on this special stock deal then they’re chasing the returns, so people have a tendency to get real emotional about their investments.

8:28

FRANK: And that’s why the advisors role is so important that we manage that behavior and we have perspective that any decisions we’re making as far as our investment allocation, I believe it has to be based on goals and the strategic allocation has to be aligned with the longer-term horizon, and we have to be very disciplined and stay with that plan and not react and become emotional to it, so that becomes a greater issue once again. When the stakes are higher and we’re faced with the thought that we may possibly run out of money during our lifetime as opposed to having plenty to take us all the way through at least three or four quality decades of retirement hopefully.

9:05

JIM: One thing I use to help explain this risk to clients is I said you know when you’re working it’s really easy, you’ve got that steady paycheck, it’s easier to ignore the ups and downs in the market, but let’s say we had a big downturn in the market. You can’t call the electric company and say hey I’m good for it, my portfolio is down, as soon as it comes back I’ll send you a check. You’re probably going to have to read the next bill without the lights on if that happens, so volatility is a huge thing when you’re in retirement and making the right decisions and having a strategy is something you need to do with your advisor. Hey Frank, a lot of good stuff. We’re going to take a short break. When we come back, let’s talk about the possibility of rising taxes and then let’s talk about some solutions or some planning considerations that people might want to incorporate so they can have a healthy and wealthy retirement, so please stay tuned.

9:57

BREAK

10:23

JIM: Welcome back as we continue to visit with Frank Lojewski. He has spoken around the country. He has spoken to groups. He’s been on TV. He’s written a lot of things about planning and he’s a personal friend. Frank, I’m so glad you took some time to visit with us because you really have a unique perspective. I’ve talked to a lot of advisors and most of them don’t bring in the importance of being healthy and paying attention to your health as part of a holistic financial plan, so I congratulate you on that. Before the break, we talked about longevity risks. We talked about being healthy. We talked about volatility risks. There’s another big risk I see on the horizon. I’ve seen student loan debt approaching 1.3 or 1.4 trillion dollars and we have people saying in the government we can just forgive all that, so I don’t know how we can afford to do that when our national debt is approaching 14 or 15 trillion dollars. We have unfunded liabilities with Medicare and Medicaid and social security they say doesn’t have any money in the trust fund anymore. I look at all these different things and then Obamacare when they first presented it to us there were a lot of assumptions as far as states setting up exchanges and different companies that would have to pay luxury taxes if they had too high of a benefit and we see all these exemptions being made and it was questionable whether that would be a balanced budget item or not and now we’re seeing a lot of things being suppressed by the media. I know a lot of states and a lot of these state exchanges have applied for huge increases because they have mounting losses, so I look at all these challenges. How can we keep the low tax rates we have today; what do you see coming in the future?

12:04

FRANK: Well I see a lot of challenges coming in the future for those that really just wait for things to happen. We have to have some perspective here and I keep reminding myself something that’s a director of the congressional budget office had conceded only in the last year or so. He said that taxes will have to be raised substantially and that includes in the middle class if we are to have any chance of successfully addressing our budget deficits and that’s a very powerful statement and I know it supports a lot what we alluded to earlier that Ed Slott has often said about rising taxes being the greatest detriment to our retirement dream. Number one, I think we have to take this seriously and be very aware of it because I think that will motivate any of us to want to take action.

12:47

JIM: I think you’re right on the money and I do think we’re going to see higher tax rates and one thing I see a lot of people doing is an over-concentration one way or the other. We have the advent of Roth IRAs, now we see Roth 401(k)s, the rules have become more flexible when doing Roth conversions and I look at it as important as it is to have a diversified portfolio of investments, I think it’s also important to diversify how things are taxed and you look at things like IRA, Traditional versus Roth. You look at things like cash value of life insurance, which has some tax favorable considerations. You look at tax deferred annuities. You look at capital gains and step-up in capital gains and appreciated assets. You look at assets and things like real estate where you can have depreciation against income. There are a lot of different areas where there’s tax favored treatment in vehicles that people would have in their portfolio. Are you finding a lot of your clients are addressing that or is that something you’re kind of leading them down the path and coming up with a strategy?

13:50

FRANK: I’m finding we are addressing that quite frankly because I think they’re really aware of the problem and that’s important and I think they really have a greater appreciation. First of all, anywhere we can shift any assets from a taxable environment or sometimes as Ed Slott calls it a tax infested environment and creating a better tax-free environment. I like what you said earlier about mentioning the Roth IRA and I think it’s been a great strategy sometimes to take some existing IRA assets and gradually even do partial conversions each year, so if we had, just to make the math simple, Jim, if we had $100,000 IRA and we don’t retire let’s say for another five or ten years if somehow we were to average 10% of a partial conversion each year, then 10 years later we would already have 100% of that basis already put into a tax-free environment without a huge tax bite and that’s a very, very valuable tax planning tool for anyone that’s going to take care of their health I should say and live a long healthy life. They’re going to want to be able to have a tax-free environment as we’re facing these rising future tax rates.

14:54

JIM: I tell people; let’s say they’re in retirement and they have a 33% tax bracket, that means you’ve got to take 50% more out than what you need to net out what you need, so for example let’s say I need $10,000 and I’m in a 33% bracket, I have to take out $15,000 to net the $10,000, so I have to take out 50% more money. Well if I’m taking out 50% more money you don’t have to be a math professor to figure out that money will run out a lot quicker when you’re taking on 50% more, so taxes are going to have a big impact. One thing I think a lot of people are really not familiar with or don’t realize is when you do get into retirement there’s a couple key things that happen. One is you have social security and social security becomes more and more taxable and it creates more taxes on your other income if you have too much taxable income in retirement, so money you draw out of your IRA while it’s being taxed on the IRA could also trigger taxes on your social security, so considering conversions before you retire is something you might want to think about. Everybody’s situation is different; your tax brackets are different, what your tax brackets might be in retirement, it’s something you certainly don’t want to go alone. You want to talk to your insurance professional, your investment professional, you want to talk to your tax professional, get them together as a team and come up with a strategy that will help you optimize some of these different investment vehicles and retirement vehicles that have some significant tax advantages. Hey Frank, one last thing I want to ask you is what steps do you think people should consider? I mean you covered a lot today. What do you think are some of the key things people should be considering when working with their advisors?

16:35

FRANK: One of the things they need to be considering is how they can utilize their advisor as I have to say as a lifetime coach. An advisor has to really be involved more in their goals, directly in the plan every step of the way, and I think we even have to take all the little strategies; the planning strategies that we didn’t even have time to get into today, and take everything very important and seriously. I think clients the more serious they are about that I think they’ll really gain an appreciation for their advisor that they never had before and we’re very fortunate, Jim, that we’ve really been able to affiliate and associate with some really great holistic advisors in this industry and we need more of them. I think a lot of the clients listening and who have them I think they should take advantage of that and develop a greater connection, a greater relationship because the decisions they make and the behaviors they apply as we said earlier are going to be very instrumental to the investment success they have, as well as the overall tax planning and lifetime income plan and that they apply.

17:30

JIM: Alright Frank, one last thing I’d like to you to just share with our audience because you are unique in that you’ve balanced health planning with wealth planning. What advice would you give clients, maybe two or three things that you found that you’ve applied that have helped you have a healthier, not only a healthier life today, but a healthier outlook?

17:49

FRANK: Number one as we said earlier is having a health coach, Jim. People sometimes thought that was strange that maybe I would have one if I take such great care of my health already and I said if you look at the PGA tour you’ve got all the greatest golfers in the world. They have one big thing in common in my mind; they all have a swing coach even though they’re already great golfers and with that in mind if people were to take away just a few things I think it’s always important, Jim, to apply something within 24 to 48 hours when we learn something, I would say it would be very important to understand the importance of food combining, number one, and that’s because your body is made of 70% to 80% water and I think the foods we combine should also have water content. I think your health coach can add more to that. Secondly, understanding the difference between alkalinity and acidity. The quality of our life, Jim, is really the quality of ourselves and acidity can destroy cells whereas alkalinity can maintain a healthy environment for cells, but most importantly, and this is a great lesson I learned from Sir John Templeton, one of the real founders of mutual fund investing, is having an attitude of gratitude. John taught us that that was the key to wealth and I also find, Jim, that the most successful clients and the happiest clients they seem to be the most grateful ones, so I often find the more grateful we are on a daily basis about what we’re blessed with and what we have, it really creates great results in who we are and what we become financially and personally.

19:11

JIM: Frank, this has been awesome and hopefully people heed your advice; work with your advisors, and make sure that you’re taking the time to really plan. I know a lot of people they kind of hold back and they kind of miss the meetings because maybe they don’t want to be accountable and not only is it a health coach but having a financial coach. That’s the way I look at myself for clients helping them make smart decisions and then helping them stay the course because we’re not emotional about their money but they get really emotional and sometimes that costs a lot of money with mistakes that people make based on emotion, so again Frank, thanks for being with us. I look forward to having you on again sometime real soon.

19:48

FRANK: It’s my pleasure Jim. Thank you so much.

19:50

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 would 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.