Having A Life

Building a Plan to Leave the Rat Race Behind

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Our Story: Why We Examined Our Assumptions

Getting Started: Jan 1992

- Both 35, no kids, less than $100k savings, including IRAs
- Just purchased a big house
- Both had good positions in high tech
- Work was becoming less fun
- Chanced upon “Cashing in on the American Dream: How to Retire at 35”
- Decided to build a six year plan

How We Approached It

- Did our homework on investments, life style alternatives, volunteering, traveling -- read books, visited places, went to seminars, talked with people
- Tracked our spending; changed our spending habits
- Built a set of detailed and comprehensive investment scenarios and stuck to them

Where We Are Today

- Eleven years into our six year plan; with a portfolio about twice the size we had planned for (even after market fall)
- Scott got downsized in May, 1994; but landed an even better job at a start-up; did well with options
- Kathy went part-time/freelance in 1997 & overcame a breast cancer bout in 2000
- Scott & Kathy got laid-off in May 2001 and became officially retired

What Else We Learned Along the Way

- So many assumptions we could change
- Useful even if not “retiring young”
- Many changes don’t have to wait till you retire
- Lots of fun

Building Your Plan To Have a Life

- Do the arithmetic
- Do some soul searching
- Do what you want

* this list was taken from “Cashing in on the American Dream”

Financial Independence

- **Financial Independence (FI)**: having an income sufficient for your basic needs and comforts from a source other than paid employment*
- **Partial Financial Independence:** can be an interim or ultimate goal; having an alternate income stream that allows you to significantly reduce the need for paid work
- Key phrases:
  - *basic needs & comforts*
  - *source other than paid employment*
  - *spend time on those things most important to you*
- Different from “retirement”, “getting rich” etc.
- It is easier for some than others - no kids, stock options, inheritance, dual income, etc - but it is possible for almost everyone

* taken from “Your Money or Your Life”

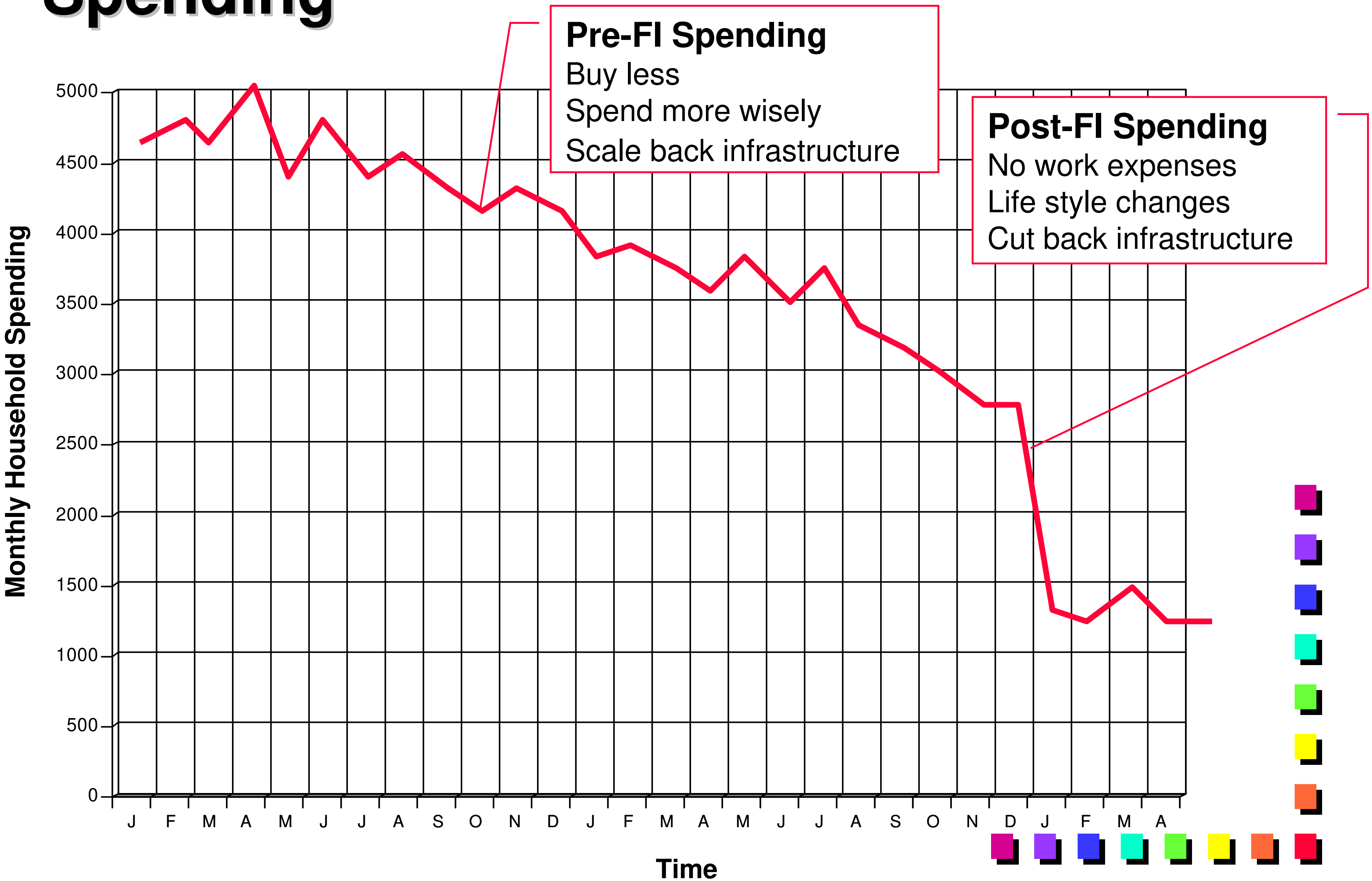
How much are you trading your life for?

Salary:	(all figures are per year)	
Less:	Federal and state income tax, social security & medicare (30% is a good estimate if you're not sure)	
	Commuting costs: car, insurance, gas, parking, repairs	
	Wardrobe costs: clothes, shoes, coats, drycleaning, hairstyling	
	Childcare	
	People who you pay to do things you don't have time to do: lawn, housekeeping, easy repairs, pet sitting, grocery delivery	
	Eating out because there's no time to cook	
	Recovery costs from overwork: cost of vacations to relax, health costs from stress-related illnesses, etc	
	Total costs of working, yearly (add above lines)	
Net Salary:	Subtract total costs from salary	

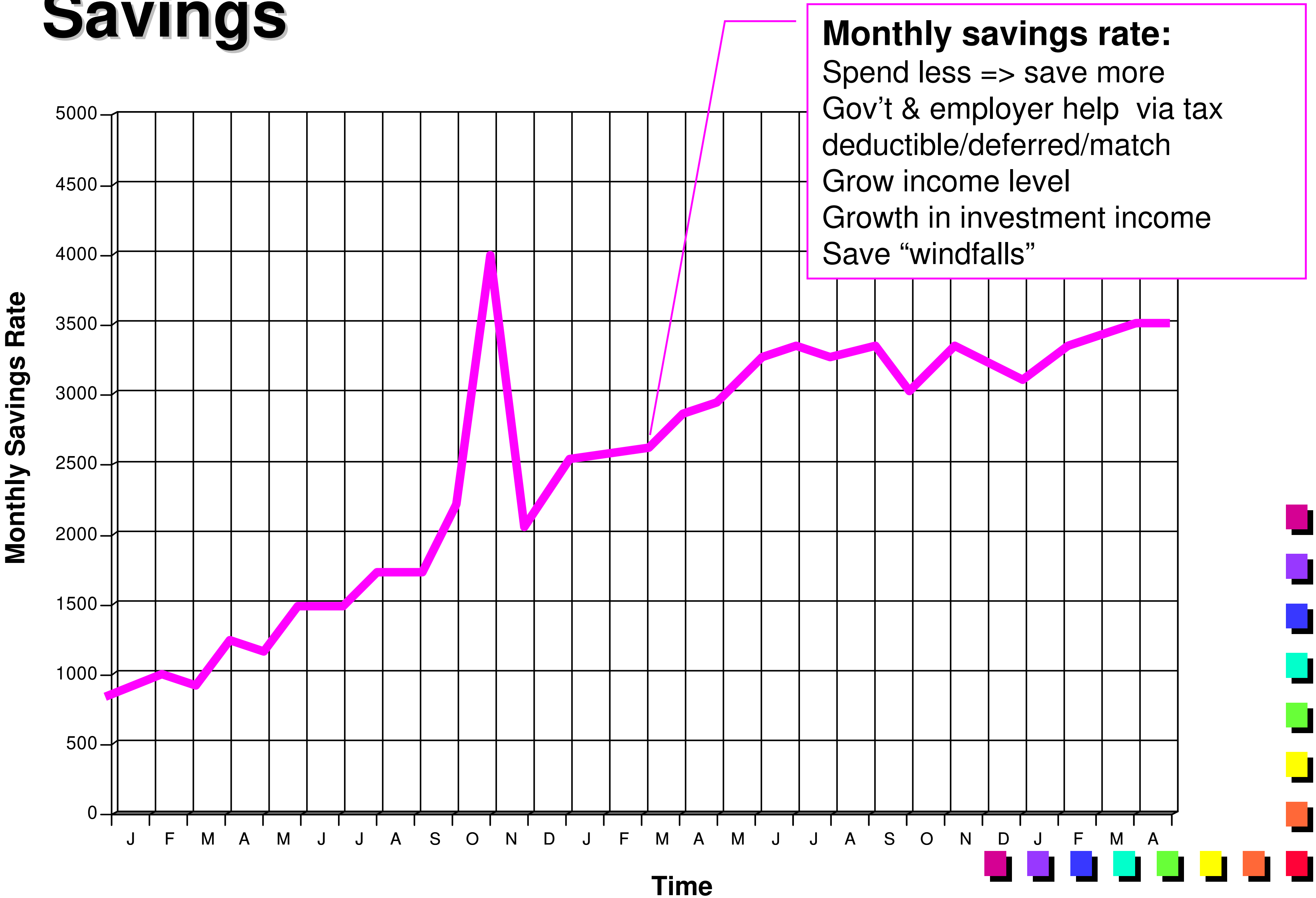
Hours:	"Official" hours per week you're supposed to work	
Add:	The actual number of hours/ week you're at the office	
	The hours/week you do work at home per week	
	Commuting time per week	
	Non-work hours spent travelling, average per week	
	Time you spend getting ready for work in the morning & decompressing at night	
	Time you spend socializing with work people "because you have to", averaged out to a week	
	Time you spend arranging others to live your life for you	
Total hours:	Add all the above	
Hours /Year	Multiply the previous line by 50 (=hrs/year)	
True Hourly Wage	Divide net salary by the previous line	

* adopted from "Your Money or Your Life"

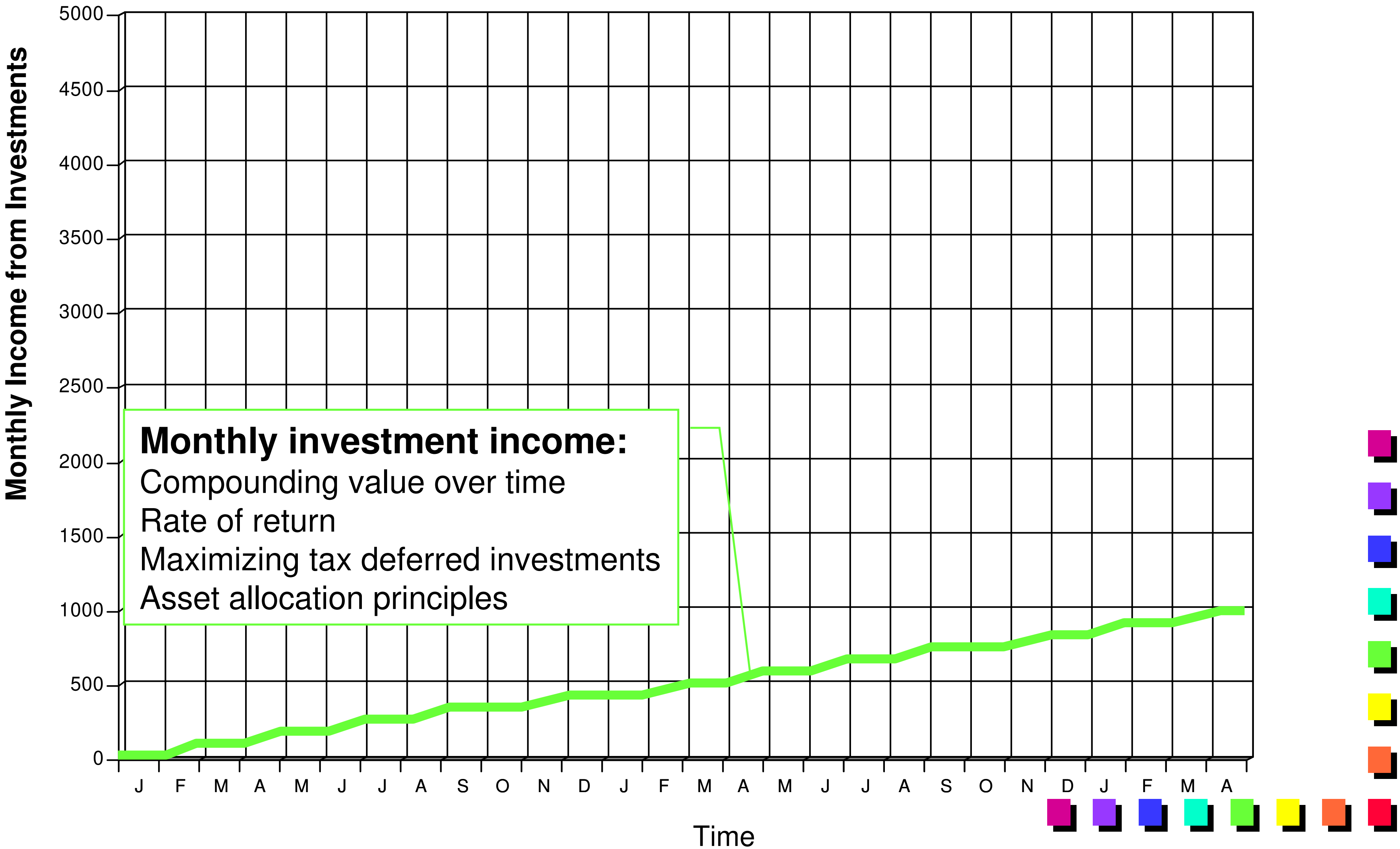
Understanding your Levers: Spending



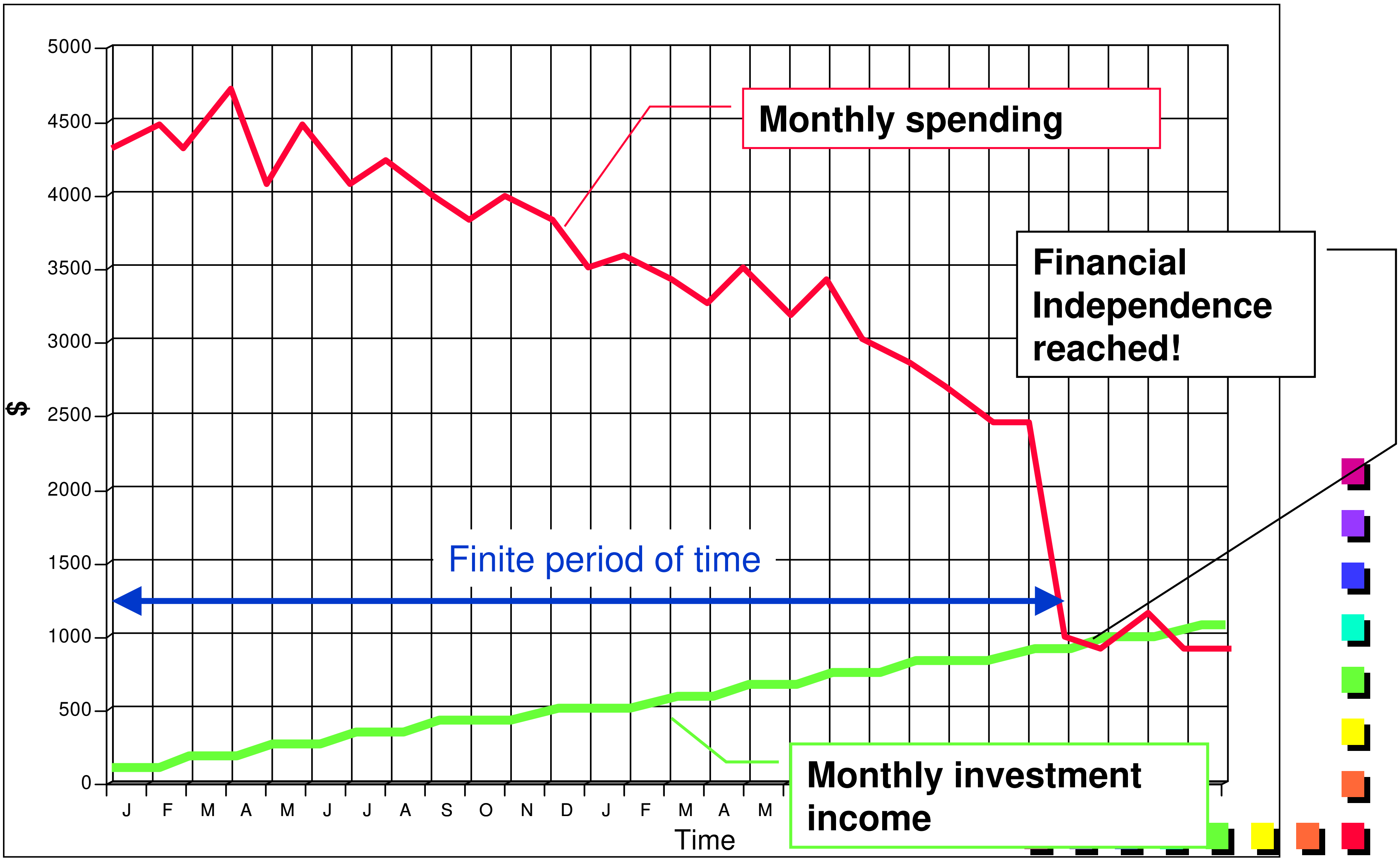
Understanding your Levers: Savings



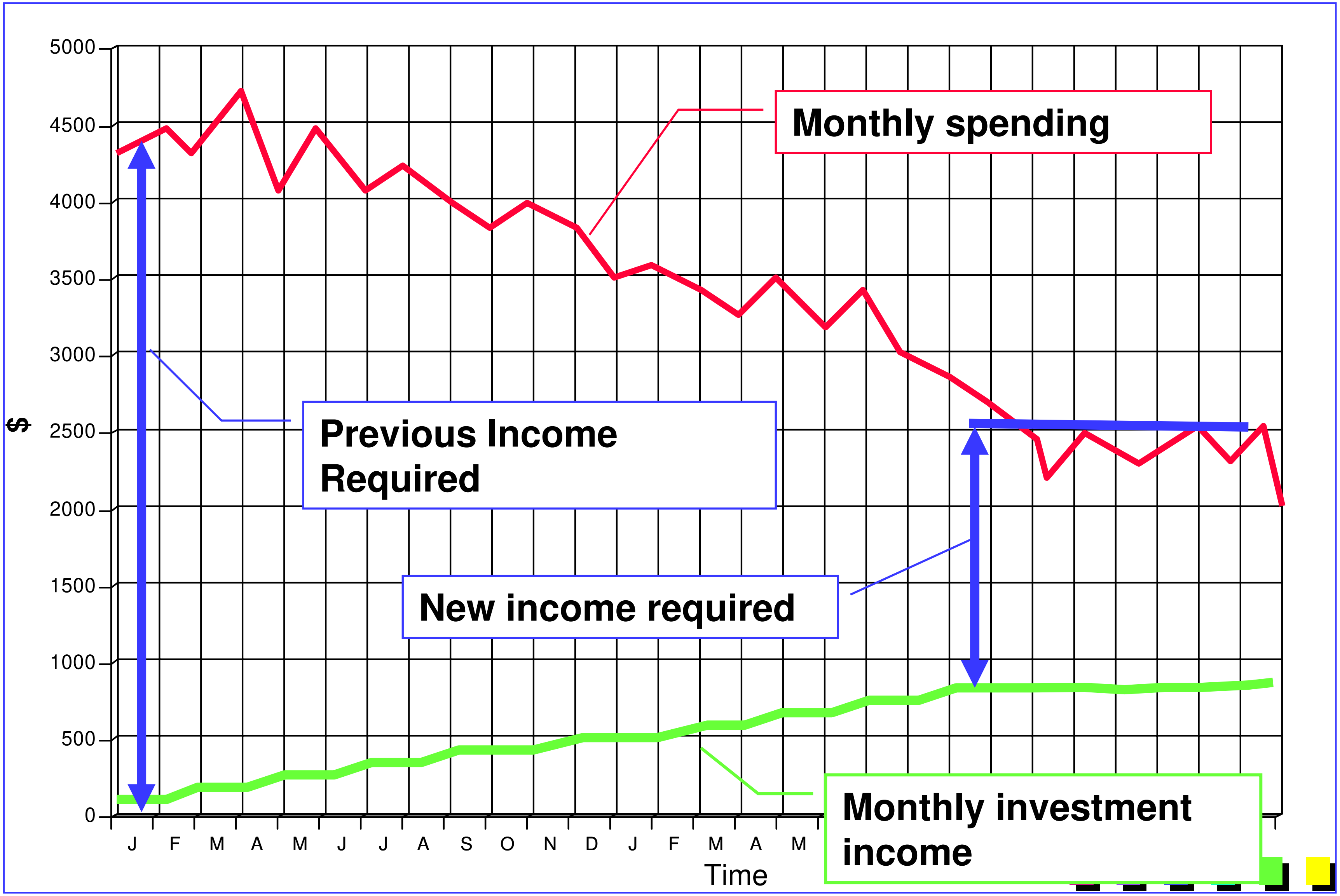
Understanding your Levers: Investment



Putting it Together: Full Financial Independence



Putting it Together:
Partial Financial Independence



How much will I need???**

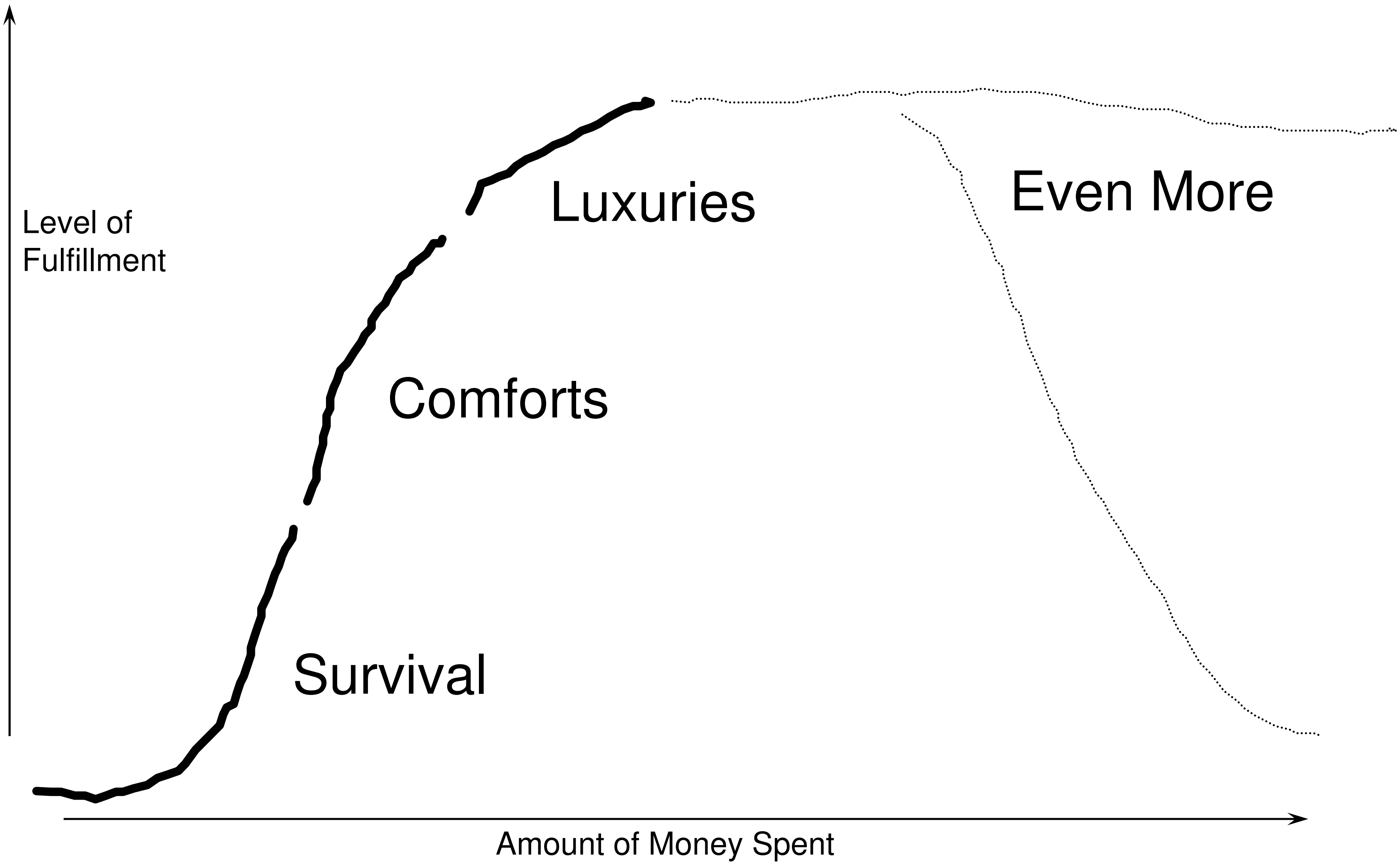
Warning: Ballpark Figure Only!!! You must do your own math!!

Required Income from Investments per Year

Age at reaching FI	**$ 20,000**	**$ 30,000**	**$ 40,000**	**$ 50,000**	**$ 60,000**	**$ 70,000**	**$ 80,000**
30	$ 378,586	$ 567,879	$ 757,172	$ 946,464	$ 1,135,757	$ 1,325,050	$ 1,514,343
35	$ 372,669	$ 559,004	$ 745,339	$ 931,674	$ 1,118,008	$ 1,304,343	$ 1,490,678
40	$ 365,119	$ 547,678	$ 730,237	$ 912,796	$ 1,095,356	$ 1,277,915	$ 1,460,474
45	$ 355,481	$ 533,222	$ 710,963	$ 888,703	$ 1,066,444	$ 1,244,185	$ 1,421,926
50	$ 343,182	$ 514,773	$ 686,363	$ 857,954	$ 1,029,545	$ 1,201,136	$ 1,372,727
55	$ 327,484	$ 491,226	$ 654,968	$ 818,710	$ 982,452	$ 1,146,194	$ 1,309,936
60	$ 307,449	$ 461,174	$ 614,898	$ 768,623	$ 922,347	$ 1,076,072	$ 1,229,796
65	$ 281,879	$ 422,818	$ 563,758	$ 704,697	$ 845,637	$ 986,576	$ 1,127,516

* This is based on many simplifying assumptions and should not be used as your target goal!! It's only to give you a ballpark estimate. It assumes 5% after-inflation return on investments (moderate risk portfolio), live till 90, spend down capital, no social security or pension, no other sources of income, in inflation-adjusted dollars, doesn't take into account taxes or impact of tax deferred savings. Doesn't provide for any "cushion" and doesn't take into account the impact of several years of low returns.

The Concept of “Enough”



* Adapted from “Your Money or Your Life”

Summary: How much do you need?

Spend less, stop working sooner.
Want some of the finer things? Keep working longer.
It's your choice

- Kids - college, private schools, role model
  - Time with parents, scholarships/state schools, travel the world
- Health insurance
  - COBRA, Kennedy-Cassabaum, individual/small biz policies, build it into the plan

"They deem me made because I will not sell my days for gold. I deem them mad because they think my days have a price"
-- Kahil Gibran

Variables to Change If the Numbers Don't Work Out

- Save more money
- Invest in a more aggressive portfolio
- Decide to spend less during "FI"
- Work part-time for a while
- Wait another year or two before you stop working
- Sell more assets
- Spend a couple years in a "no expense" situation after you stop working, to allow your investments to grow some more
- Find a way to earn more money now
- Buy one lottery ticket a week
- Decide not to leave an inheritance
- Plan to to work again after some number of years

Action Steps: Building Your FI Plan

- Learn the basics about investments
- Spend in alignment with your FI goals; get out of debt; stop buying gazingus
- Track your spending and saving rates
- Get your financial/legal house in order (will, life insurance, health care proxy)
- Get clear on your “relationship with money” if necessary
- Understand your current net worth, and do portfolio allocation of your assets
- Make maximum use of all tax-deferred plans possible
- Set up an automatic savings plan & increase your savings amount
- Increase your savings by raises, windfalls, etc.
- Check social security benefits: on the form, say you expect $0 future earnings
- Put together a system to track your spending & investment progress
  - Quicken is great for tracking expenses and investments
  - Quicken Financial Planner is great building your FI plan
- If you’re really serious about reaching FI, consult with a financial planner
  - Even if its only to confirm your calculations
  - Do your homework before selecting one
    - Fee-based and commission-based
    - Various certifications

How do you know when it's time to quit your job?

<u>Is your job right for you?</u>

- Do you love what you're doing?
- On most days, is it easy to go to work?
- Do your work and leisure time often seem the same?
- Do you feel things are going well in your job?
- When you have an especially frustrating day on the job, do you still fee you're doing what's right for you?
- Are you convinced there's nothing else you'd rather be doing?
- Would you feel something was missing in your life if your type of work suddenly disappeared?
- Do you have a positive attitude on the job?
- Would you recommend this line of work to someone you care about?

from "effective telephone techniques", Dartnell

- **Two year test:** If you found you had two years to live, what would you change about how you spend your time?*
- **"Is your life whole** -- do all the pieces - your job, your expenditures, your relations, your values - fit together?"**
- **There's nothing wrong with continuing to work full time, for as long as feels like the right thing for you to do!**

** From "Cashing In…"*
*** From "Your Money or…"*

What will you do next?

- Change to an alternative work pattern
  - Take a “time out” from work for a few years
  - Change to working intermittently or part time
  - Change to a career that is less financially rewarding, but is more rewarding in some other dimension
  - Cut back to one spouse working (or take turns working)
  - Some combination of the above
- Full “retirement”
  - How do you fill your day when you don’t work?

Taking Advantage of New Trends in Work Flexibility

- “New economy” trends - outsourcing/temping, telecommuting, shortage of skilled workers, specialist firms...
- Some professions are inherently more flexible than others
  - Writers vs. elementary school teachers
- Most professions are more flexible than you probably think
  - Your current JOB, however, may NOT be flexible
- Think of yourself as a bundle of skills that can be packaged in different ways for different markets
  - This may not align much with your current “profession”
  - You have lots of skills you are not currently using

Choosing Your New Work Pattern

- Is this a permanent lifestyle change, or a one time opportunity?
- How “independent” do you want to be?
  - Regular employee
  - Contractor
  - Freelance
- What income do you need to earn?
  - Partial financial independence is a big help here
- Where do you want to work?
  - Home, office, “on the road”, overseas
  - How much of that work will be for pay?
    - This is a great chance to make important but uncompensated contributions

Choosing Your New Work Pattern (cont)

- How much do you want to work? (as a % of “full time”)
- What parts of the year do you want to work?
  - Leave room for 8 weeks vacation
  - Take the summers off
  - Year round
- What parts of the week do you want to work?
  - Reduced hours per day
  - Reduced days/week
  - A couple very long days
- Which of these are most important, and which are you willing to compromise?
- Are you willing to be flexible in ways most others are not?
- Not all these may be possible - but, knowing your preferences helps move you in the right direction

My Approach

- Careful records meant I knew my yearly spending rate
- I set up a special account and saved enough to cover 18 months living expenses
  - This took me two - three years
  - I cut back on my retirements savings level somewhat (but not on any tax-deferred or employer-match savings)
  - I cut back somewhat on other spending in order to save more
- With my “pot” of savings, I was comfortable quitting with no “prospects”
  - No urgency to immediately start hunting for work
  - My plan was to find a regular job if/when the pot got down to 25% of original value
- Instead, my pot is now up to about 140% of original value
- Took a job as “employee” when I got to retain the rest of my flexibility

Getting Started - What Will You Do?

- Talk with people!!!
  - Let them know what you’re thinking about & get their ideas
  - Start this long before you quit your regular job
  - Proof points - eg published articles
- Lots of local networking and professional organizations
- Give it time to build up
  - Enjoy the slower pace while you can
  - Plan financially for this slow start
- Consider volunteering in your field, to a non-profit

What's Stopping You?

- How will I pay for benefits?
  - Health insurance
  - Disability insurance
  - Retirement savings
- What if no one will hire me?
  - What's the worse that can happen?
    - Go back to work
    - Spend down some savings
    - You won't starve, your family won't lose their health, you most likely won't have your mortgage foreclosed
- How do I figure out what to do, where to go, who might hire me?
  - Read through the resource list, talk with people, go to meetings, GET INTO ACTION

Resources

- Local contracting firms
  - IMCOR - Portable Executives www.imcor.com
  - Aquent.com - worldwide firm, formerly MacTemps, probably the leading advocate of free agency
  - M^2 - just-in-time management staffing. www.m2net.com (SF based)
  - Flexible Resources, placement firm specializing in non-traditional schedules, many professions.   617-731-2729
  - For additional pointers, see http://www.freeagentnation.com/university/business.html, other web sites listed in resource list
- Organizations*
  - TEMP (Temporary Employee Meeting Place). Organization for people in temp, contractor, freelance positions. 617-236-0044
  - Shorter Work Time Group, 617-628-5558
  - Society of Professional Consultants, 978-692-6950
  - Working Today, organization for temp, contractors, freelancers, etc. PO Box 681, Times Square Station, NYNY 10108, 212-840-6066
- Other
  - Directory of Executive Temporary Placement Firms, Kennedy Publications, 1994 (lists 205 companies). $19 (There may be an updated version)

* Most of these were taken from the Boston Globe “Living with Work” column - they may be outdated by now

What will you do during the time you're not working?

- **This applies to both partial and especially full financial independence**
- **Replacing what you got from work**
  - **Structure**
  - **Community**
  - **A sense of purpose, mission, growth, or contribution**
  - **Security, companionship, personal growth, feedback, prestige, power, creativity,….**
- **Understanding what you truly want to bring to the world**
  - **What motivates you?**
  - **What do you love?**
  - **What are your special gifts?**

"Look for meaning in yourself, not in your job"
- from Cashing in on the American Dream

So, what will you do???

- **First answer:** sleep in late, travel, get caught up on everything I'm behind on, visit the friends I never have time to see, spend more time on sport/hobby, learn a new sport, exercise more….
- **Upon more reflection:** You know, I've always really wanted to (get involved with helping disabled children; play saxophone in night clubs; hike the Appalachian trail; live in a warm climate)
- **Upon even more reflection:** Here are the things that are important to me and that bring me joy. Here is what I'm passionate about. Here is what I have to contribute. Here is how I want to construct my life.

Moving through the stages….

- Doing, growing, giving….
- All are useful; you won't stop earlier ones as you add later ones
- You'll move at the pace that is right for you
- Typical pattern
  - First few years:
    - dabble in many things
    - get caught up on all the "ought to's" and "want to's"
    - unwind
  - Over time, you'll find the four or five things you're most passionate about
- <u>You can (must!) start building and implementing your life plan long before you stop working</u>

Ten Clues to Your Life Purpose*

- What do you love to do when you have spare time?
- What parts of your present job or life activities do you thoroughly enjoy?
- What do you do naturally well?
- What have been your 10 greatest successes to date (in your eyes)?
- Is there a cause, value, or quality that you feel passionate about?
- What are the 10 most important lessons you have learned in life?
- Are there some issues or perceived problems that have occurred over and over again in your life?
- What do you daydream about doing?
- What would you like to be remembered for?
- What would you do if you knew you could not fail?

** from "Thriving in Transition"*

Who else has expectations for you?

- Your parents
- Your friends
- Your boss
- "Society"
- Your spouse
- Your children
- Your church
- Your "little voices from your past"
- ________________________
- ________________________

Consider how much you need to take into account their wishes.

• Some should have a big say (spouse)

• Some probably should be completely ignored

Sticking with it

- Make it real
  - Always be building and improving your plan
  - Live as much of it as you can today
  - Do trial runs if you can
- Measure your progress
- Read books from the references list
- Tell people about your plans
- Talk with people who have reached FI
- Plan it with others and help each other
- Change & evolve the plan
- Roll with the punches; adapt your plan where necessary
- If you know where you're headed and allow yourself to stay open to opportunity, you'll be amazed at how much "luck" you have in furthering your plan

About the speaker…..

Kathy Hornbach is 46 years old; she and her husband retired two years ago, and have been traveling the world, volunteering, and hanging out ever since. She left the corporate world in 1996, and worked part time in her specialty area of high-tech strategy and scenario-based planning until the high-technical depression hit. She also gardens, dives, volunteers, goes fishing, visits friends and family, pet-sits, bicycles, and is even finally cleaning the basement. Before her decision to "have a life", Kathy was at Digital Equipment in the Business Strategy Group, providing staff support to Digital's senior management team. Prior to that, she managed a product marketing group for Digital's CASE product line. Before joining Digital, she managed an engineering group for an aerospace electronics company. She hold an Honours B. Math, computer science major, from the University of Waterloo, Ontario, Canada.

Kathy does occasional presentations on how she and her husband have built their plans to "have a life", usually at the prompting of envious friends who would like to follow a similar path. Feel free to contact Kathy at hornbach@world.std.com or 603-889-4820 if there is a venue that you'd like to request she present at.

What I've Learned in Six Years Since Leaving the Corporate World

- You can't imagine how wonderful it is to "own your own life"
- Don't underestimate the power of habit
- Live aligned with your priorities NOW, not at some vague future date
- Having time for friends and family is a great gift
- Working part-time has its benefits
- I don't think I could every work for a big corporation again
- Many of the opportunities that arise are things you NEVER would have thought of. Be open to them.
- Pay as much time to investing in your health as investing in your portfolio