JOCO 913

Celebrate your financial independence this year

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Special to The Star

June 30, 2018 06:54 PM
Updated June 30, 2018 06:57 PM

The Fourth of July isn't only about barbecues, hot dogs, and fireworks. Each year we are actually celebrating our independence from Great Britain and the formation of the United States of America. As a financial planner, I urge my clients to plan for their own personal financial independence day. The day when you are free!

It means different things to different people. Maybe your goal is to be free from work (retirement), free from debt or free from financial worry.

Reaching financial independence means that you no longer *have* to work, although many choose a path different from a typical 8 to 5 job. Most of us want to work a less strenuous schedule but still spend our time doing activities that we find interesting and meaningful.

Maybe it's part-time work, starting a business, consulting, writing books or volunteering. It could be spending more time with family, gardening, traveling or just having more fun. The key is that you have worked hard and planned so that you have the freedom to choose.

Just as our country didn't become independent overnight, you need to start planning well in advance of your retirement date. There are many variables at play here, so I've outlined the major considerations and what you can do right now as you move toward financial independence:

▪ Cash Flow: You will need to understand your current monthly "burn" rate for normal expenditures as well as the things that pop up throughout the year like real estate taxes or insurance premiums. You can use a system like Mint.com or Quicken to track your spending history.

Also, consider how your spending needs may be different after you retire. Maybe you want to have a larger travel budget or move to a new location. How will your tax and health care expenses change?

Once you know what you need to spend, what are your income sources during this time?

▪ Income: Historically, retirement funding was considered a "three-legged stool": income from a combination of Social Security benefits, personal savings and a company pension plan. Now, that three-legged stool is more like a pogo stick.

Pensions are being frozen or discontinued and Social Security as it exists today will likely change. Odds are that you will still have some form of a Social Security benefit, but it will probably only replace a small percentage of your current income.

That leaves your personal savings to pick up all the slack. Now more than ever, your financial independence is directly correlated to your ability to save a portion of the income you earn now.

▪ Personal Savings: Start pumping funds into this today. Try to sock away at least 10 percent of your income each year. Utilize your employer's 401(k), 403(b,) 457 or other available retirement plan and work toward maximizing the amount you contribute to this plan.

Pay attention to age-related catch-up provisions. The maximum employee contribution to a 401(k) in 2018 is $18,500 ($24,500 if you're 50 or older). The more you contribute now, the longer the funds have to grow.

If you don't have an employer plan, work with your CPA and a financial planner to identify the best savings vehicle for your situation.

▪ Investments: Start developing an investment and long-term savings balance outside of company plans and tax-deferred accounts. This will help give you flexibility during retirement to plan for taxes and choose the account to use for living expenses.

I advise clients that the best way to start any savings or investment balance is to make the contributions automatic. You essentially want to make these like "bills" that are paid automatically each month. This way you "pay yourself first." You force the savings and make it automatic, so that you don't just spend those dollars as you might if they were just sitting in your bank account.

As you enjoy the Fourth of July festivities this year, I encourage you to think of the goals for which you are fighting. Imagine how you'll celebrate your own financial independence day!

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