The Biggest Planning Mistakes Every Generation Makes - Transcript

Tim Mullooly: Welcome back to Living with Money. This is Tim Mullooly. On today's episode, we're going to continue the discussion that we started last week about planning and financial planning. This week, I wanted to touch on mistakes different generations or different people make at different phases during their life. Tom is here with me today. Tom, thanks for coming to talk with me on this episode.

Tom: Happy to be here and happy to contribute.

Tim Mullooly: Yeah. We're going to break it down. I asked Tom to come up with his two biggest mistakes for each of these different phases of life, and I've done the same, so we'll each share our two top mistakes and talk about them a little bit for you. The first age range that we are going to touch on is kind of the same group of people that we were talking to last week, and those are the people that are around my age, late twenties, in between 25 and 30. Tom, what was one of the mistakes in terms of financial planning that you think people in this age range tend to make?

Tom: I think the first mistake is really folks not even bothering to learn money concepts.

Tim Mullooly: Right.

Tom: They just don't understand why they're paying interest, or how compounding can work for and against them. I think that's really the first problem, is not understanding how money works, and it's not master's level work either. It's really just paying attention and not being afraid to ask questions. I got a very good education from my father when I was first shopping for my own car, and he explained how the interest on a car loan would work. I never even realized how much more I'm going to be paying for a car until he sat me down and kind of worked through the math with me. It's, again, not complicated, but it's something that people are graduating from high school and even college, and they just don't understand how money concepts work, especially compounding. This is very important for folks that are graduating college with student loans.

Tim Mullooly: Right. When you get out of college, we've touched on it a lot in previous episodes about how these concepts aren't taught to you in school, and so once you get out of school, it's kind of on you. No one's going to go out of their way to teach you these things anymore. It's not like you have a class to go to on this kind of stuff. So yeah, I think that's right on, and something that you kind of need to take the initiative with.

Tom: The second problem that I see, and this is just me speaking from my own experience, in my twenties, I felt like I had a lot of catching up to do. I know that when I got my very first paycheck from EF Hutton, I was still 20 years old. I blew my entire first paycheck on a stereo that had speakers up past my waist, but I couldn't wait to get them, and then I was still living at home, so my parents were like, "That's just too darn loud. You have to turn it down." But then it went from spending a paycheck on a stereo with speakers to upgrading my ride. You know, I had to get a new car. Then I went on vacation with friends. We went to Club Med, buying Met tickets, but also doing things like paying down a credit card. I was going to school at night for my master's. As a result, I had nothing saved.

Tim Mullooly: Yeah. That actually was my first point that I wrote down. People don't pay themselves first.

Tom: Yeah.

Tim Mullooly: That's a lesson that I personally learned when I first got out of school. You need to, or you should save money first and pay yourself first, and if you only save whatever's left over at the end of every pay period or whatever's left over from every paycheck, as opposed to taking care of that savings first, you're never going to get around to saving any money. It's going to be a variable amount every month, and then you're more inclined to spend that money and not save it. For the first handful of years, even though I was working here as an advisor, and we would tell people to pay themselves first, I wasn't actually doing it. Just over the last couple of years, I've started to pay myself first, and now you can actually see your savings start to build up.

Tom: There is nothing better than that feeling when you can say confidently to someone, "I have $10,000 in the bank."

Tim Mullooly: Right.

Tom: That's power. I know that the very first podcast that Brendan and I ever did years and years ago, we talked about that. That very feeling that if you have money in the bank, it changes your decision making ability. It changes how you look at things. So just knowing that you've got ... It doesn't matter what the number is. $10,000. If I've got $1,000 in the bank, if I've got $5,000 in the bank, it changes your thought process.

Tim Mullooly: Yeah, absolutely.

Tom: What was your second point?

Tim Mullooly: It kind of piggybacks off that a little bit, and it was something that I talked about last week as well, and it's just not taking an active role in your financial life, and kind of just letting it happen to you. That's a big mistake that I see people my age making. I have conversations with friends, and they make the off the cuff joke almost that, "I don't even know how much money's in my checking account. I'm afraid to look." And that's a huge mistake, and I hope that it's just a joke when people say stuff like that, but it kind of scares me at the same time because it's like, "I hope you're not actually doing that."

I said it in the episode last week. If you have $5 in the bank account, that's all right, as long as you know that there's $5 in the bank account. It's better than not knowing the number at all. So I think people in their mid to late twenties, even if you don't have a lot of money, you know you don't have a lot of money, you still need to take a look every once in a while just to make sure that the numbers are the way that you think that they are.

Tom: Kind of a sad story to share, but I'll share it nonetheless. In the eighties and nineties, or the first part of the nineties, I built my business on cold calling. I was a broker, and that's what I did, and it always kind of struck me funny when I would call people and they would say, "But I have no money." And then they would laugh.

Tim Mullooly: Right.

Tom: And I'd be like, "I wouldn't be laughing."

Tim Mullooly: One, I wouldn't be laughing, and two, that's probably not the case. But I feel like that's an answer people give you when they don't know how much money they have, because people who know how much money they have, like you were saying, if you have $5,000 or $10,000 in the bank, you know it. It's a good feeling. Or if you don't think that it's enough money in the bank and you want to change something, then it's not a good feeling, but-

Tom: ... do something.

Tim Mullooly: Right. And I think that that sounds like an answer of someone who doesn't know what's going on with their finances, and that's a mistake.

Tom: It is.

Tim Mullooly: The next age range group of people that we want to talk about are people now moving on from late twenties to late forties, so in like their mid forties. For you, what was the first mistake that you see people that are in a sense more established in their financial career, might be like peak earnings. What do you see people doing?

Tom: A couple of things I'll share. Number one, our listeners, if you have goals, whether they're business goals or savings goals or investment goals or financial goals, or just life goals, realize that you are the exception and not the rule. Most people wander around and they don't have any goals. Think about that. They don't have any goals. And if you've taken the next step and actually written them down, you're in the 1%. You are in the 1%. So I know I started my own business, I started Mullooly Asset Management when I was 39. So my goals, my savings goals were super short term. I needed to reduce debt immediately. I needed to get cash right away.

But for a lot of people, this is a time, in your forties, when you absolutely, if you haven't started saving, you really need to at that point. It doesn't matter if you're just putting money away for a rainy day, or money for your kid's college education, or you're putting money away for retirement or paying down your mortgage. These are all topics that you could talk about with a financial planner, but a problem that we see way too frequently is there's a lot of folks in their forties that are simply going paycheck to paycheck.

This is going to get a little dicey here, but whether people are trying to keep up with the Joneses, keep up with the folks that live on their street, or their expenses are just a little out of control. It's expensive living, especially in the New York, New Jersey area where we're located, and then try and raise a family on top of that. As a result, a lot of people are just not saving, which makes the smallest emergency that comes along, car repair becomes an emergency.

Tim Mullooly: Right. Yeah. It's a show stopper at that point.

Tom: It is.

Tim Mullooly: That's got to be a scary feeling. I know that it is for me when it happens, and I'm 27 years old. If someone is in their forties, especially with kids, and there are a lot of other responsibilities on their plate at that point too, I'm sure it's even more scary for them.

Tom: I think it really comes down to, "Do you want to live your life waiting for the hits to come and knock you off your feet, or do you want to be a little prepared?" I hate to talk turkey, tough love, but gosh, I don't know. I've been on the other side where I got caught flat footed with a financial emergency, and I didn't like it, and I swore to myself I'd never be in that situation again.

Tim Mullooly: Yeah. And I think hopefully people listening to this haven't experienced that yet, and hearing some of these mistakes that we're talking about will trigger something to proactively get out there and change what they're doing. Kind of along the same lines, the first one that I had, I'm assuming that these people in their late forties have kids. Obviously there's different situations for people in their forties who don't have kids, but if you have kids, the first thing, the first mistake that I see people making sometimes is they don't have a will. If you have kids, you need to have a will, period.

Tom: About 50% of the people-

Tim Mullooly: End of story.

Tom: Yeah. About 50% of the people out there don't.

Tim Mullooly: Yeah. You need to have a will, beneficiaries on your accounts, your assets, powers of attorney, guardianship designations if something were to happen to you. I mean, these are things that you don't want to leave to have someone else make that decision for you.

Tom: These are grownup issues. They really are.

Tim Mullooly: Right. And it wouldn't just affect your life. I mean, it affects the lives of your kids as well. So these are super important things to consider. I think that that's one of the biggest things for people when they come in here and they're in their forties, and we say, "Do you have a will?" And they say, "No." It's like, "Okay. One of the first things, if not the first thing, go do that, even if it's the most basic will out there."

Tom: Yeah. Needs to be done.

Tim Mullooly: Yep. What was the second one that you had?

Tom: I'll also add that there's lots of examples that we come across of folks in their forties who continue to just live their lifestyle. I don't know any other way to say it, so I'm just going to say it. There's a lot of people out there who believe that their income is going to continue forever, or that the rate of increase that they get each year is going to compound forever, into infinity and beyond.

Tim Mullooly: Right. Yeah.

Tom: Sometimes, you know, jobs get eliminated, people get fired. Sometimes a business is going to change direction, and suddenly some folks are really, they're on the rocks, and they don't have a safety net. And we know specific examples of situations where this is happening right now to some people that we really care about, and it's a shame because they did nothing when it was good times.

Tim Mullooly: Yeah.

Tom: And they could have socked just a couple of bucks away. It would really help them out. Now they feel really silly and ashamed that they have to go hat in hand and ask people for help. You hear people say, "Oh, the economy's really good. Everything's great." It really wasn't all that long ago where 2008, 2009, jobs were getting slashed every day of the week. People were getting foreclosed on, losing their homes. You're not only upsetting your life, but you know, if you're married and you have kids, you are really changing the direction of other people's lives in addition to your own. So it takes a little bit of planning, a little bit of forethought. It doesn't need to be something drastic, but holy cow, don't let this happen to you. I keep saying this, I've said it on like every podcast, so I know I sound like a broken record, but it wasn't raining when Noah built the arc.

Tim Mullooly: Exactly.

Tom: Come on.

Tim Mullooly: Yeah. You can't expect the sun to shine forever. You got to do a little bit of forward thinking and protecting at some point before it gets bad.

The second one that I had was, if you do choose to help your kids pay for college, I think having a real game plan for that is really important. A lot of times we see people start putting money away for their kids' education, and then two years later, they take it out because they need to redo their bathroom or they need to buy a new car, or something like that. So I think in the midst of a full financial plan, you can take all of those different events into account and have money set aside for specific things and leave it for specific things. If that money's earmarked for college, leave it there, and have it be earmarked for college, and don't use it for other things. Obviously there are situations that come up unexpectedly, but you want to try your hardest to not have to rip up that script, because then you're going to have to start all over from phase one, from the beginning.

Tom: One of the hardest lessons that people need to learn, and this again, I didn't want to turn this into a podcast about tough love.

Tim Mullooly: I mean, we're talking about mistakes here, so it's going to get a little tough for people.

Tom: People need to learn the power of the word "no." And as Americans, we want to soften the blow. So when someone asks us to do something that we don't want to do, we say, "No, I'm not going to do that because I'm ..." Fill in the blank. Going to say something that doesn't hurt your feelings.

Tim Mullooly: Right.

Tom: It's amazing. If you just say no, just say no. "Hey, we would really like to get a new car, but the only money we have is in junior's college fund." "Well, you know, he's still got a long way to go to college, and maybe he'll be a plumber," which, incidentally, excellent career. Yeah. I think learning the discipline of saying no would help a lot of folks.

Tim Mullooly: Yeah.

Tom: It's a hard thing to do.

Tim Mullooly: The third and final age group that we're going to talk about, now we've gone through twenties, forties, so now we're going to talk about people that are in their sixties. You know, mid sixties, assuming that they are planning on retiring. So people that are getting ready to retire. Tom, what do you think is one of the biggest mistakes that people getting ready for retirement make?

Tom: I think it's ignoring reality. The reality is, if you're 60 or 61, retirement is staring those folks square in the face. There's no more lofty talk about, "I better start saving for the future." The future's here. It's happening right now. We hear stories about folks who have lost their job over the last few years. Maybe they were 55, 56 when their job got eliminated, or they were downsized out of a job, but now they see age discrimination at work. They can't find work because they're 55. I mean, you can put down, "Yeah, I graduated from college in 1983." People can do the math. They know how old you are.

So age discrimination is bad, and age discrimination is real, and this really isn't a podcast about that, but the problem that you run into is, in your planning, you need to be prepared that if you lose your job before ... You're playing musical chairs. If your job gets eliminated before the time you want to quit, you better be ready, because you may not have another opportunity to work if you're excised out of a job at 59.

Tim Mullooly: Yeah. That kind of goes back to the point that you were making about people in their forties too, just assuming that everything in your life is going to continue in perpetuity, exponentially, forever. When you're closing in on retirement like you're talking about, your job could be cut at any point, and then your income is gone. So what happens then?

Tom: It's a real problem, and I think the issue of folks in their late fifties, early sixties, and not being ready for retirement, and some people were being forced. For medical reasons, for economic reasons, they're getting forced or pushed into not working. I don't want to call it retirement, but they're being forced into a no work situation before they're really, really ready. And this is the point that I'm trying to make, is that it makes people really bitter. I know that when you're in your twenties, thirties, even in your forties, you're not thinking about being a grumpy old man. You're thinking about enjoying the time where you no longer have to work. And so you look forward to those days, and then if you wind up in a negative situation before you're ready to retire, we've seen the change happen in people. It's not easy, and it's not actually a math problem. It's other issues.

Tim Mullooly: Yeah. So my first one actually is a little bit of a math issue. One mistake that we see some people making is having the mindset that they want to get too conservative with their investments too soon, and in quotes, "protect their assets."

Because they think, "I'm not going to be sending any more money into this account, because I'm not going to have income, and I need to protect what I have, so I need to get more conservative." When the reality is, if you're in your sixties, people are living into their nineties, early nineties, even mid to late nineties, so that's 30 years potentially that you could be retired without income. I think it speaks-

Tom: Almost as long as your work career.

Tim Mullooly: Right.

Tom: Nearly as long.

Tim Mullooly: Yeah, and I think that this speaks again to having a plan and a financial plan in place, because you're going to know how much risk you're going to need to take with your investments at what time. You're going to know how much you need to lean on your investments in retirement, how much those investments need to spit off-

Yeah. Exactly. On a monthly basis, how much you're going to be spending versus how much you have in the account. So you do a little bit of math and say, "Okay, we're going to need X amount of dollars from our investments. We can't afford to get too conservative and jump out of the market completely. We need to keep some of it invested, but maybe take some of it off the table." You're going to know all of that.

Tom: But Tim, if we next year go into a situation where we have a market like we did in 2008, market slices off 40%, it's going to freak a lot of people out.

Tim Mullooly: Yeah, it definitely will.

Tom: But if I retire in 2019, and then the market gets dropped by 40% in 2020, i'm screwed.

Tim Mullooly: You could be. Yeah. I think that there are programs and software out there that financial planners have that can run these types of simulations for you, and I know that we have that capability here. Brendan does it for clients. You can run different situations and say, "Okay, if the market takes a 30% haircut next year, like in the first year of your retirement, how is that going to change everything?" And the different sequence of returns there. And you could do it to the upside as well. Like, "If your investments go up 30% one year, the first year of your retirement, how does that change how you approach risk from then on?" So you can use these different softwares and planning tools working with a financial planner and run all these different tests beforehand.

Tom: I'll also share that one of the conversations that we often get into with clients is, if you need money in the next two, three, four years, probably shouldn't be at risk. And so you want to protect that money and kind of put it over here in a bucket so that you can continue to live your life. Say the market's bad for two, three or four years. At least you've got your expenses covered for that period and you can give your account time to get back on its feet. There's a lot of different ways to slice it, but I think these are things that when you're panicking, you're not thinking clearly, and that's a problem.

Tim Mullooly: Yeah.

Tom: I think another issue that folks in their sixties, probably more in their seventies see, is that for a lot of folks, we meet a lot of really good savers that come through the office. They're very good at putting money away. They're very diligent about it, but I think what happens is, they're so used to being regimented about their savings and their investing, that they kind of forget how to loosen up a little bit.

Tim Mullooly: Right.

Tom: How to relax and how to loosen the purse strings a little bit-

Tim Mullooly: To use what the savings was for.

Tom: Right.

Tim Mullooly: Yeah.

Tom: So sometimes it's a hard shift getting people to start thinking about, "Okay, now I actually have to go from being a saver to a spender." They don't like that.

Tim Mullooly: Yeah. It's like that point that you were saying, like, "The future is here."

Tom: Yes.

Tim Mullooly: "This is what you've been saving for."

Tom: That's right.

Tim Mullooly: So yeah, it's definitely ... You're taught your whole life, "Save, save, save, save, save," and now it's like, "Okay, this is what you've been saving for. Now spend."

Tom: Yeah.

Tim Mullooly: It's definitely tough.

Tom: Hard to do.

Tim Mullooly: Yeah. So the last one that I had was, it's kind of more of a technical thing. People that come in and it's not necessarily for the individual themselves, it's for their loved ones afterwards. People that come in with multiple beneficiaries or multiple executors on an account for your family or whoever is named the beneficiaries, it just becomes a headache and a hassle when there's too many cooks in the kitchen.

Tom: Yeah.

Tim Mullooly: Really is best, I know people like to include everyone, and you don't want to hurt anyone's feelings if you have multiple kids or something that you want to make the beneficiaries or the executors on your estate. Really, I think best practice is just one per each.

Tom: Yeah. I agree.

Tim Mullooly: It's cleaner. It's easier. There's less back and forth, because you need to get everyone to agree on everything if there's multiple executors on your estate. So for your loved one's sake, I would suggest just one executor, it would be best practice.

Tom: I read some stat that a lawyer put out that said something like 40% of his estate clients wind up arguing and disagreeing.

Tim Mullooly: Yeah.

Tom: So no matter how hard you try, they're still going to fight. Why bother? Let's make it easy. One executor, please.

Tim Mullooly: Yeah.