Financial Clarity

Modeling Your Lifestyle Choices and Retirement

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Investor Education Conference
2025

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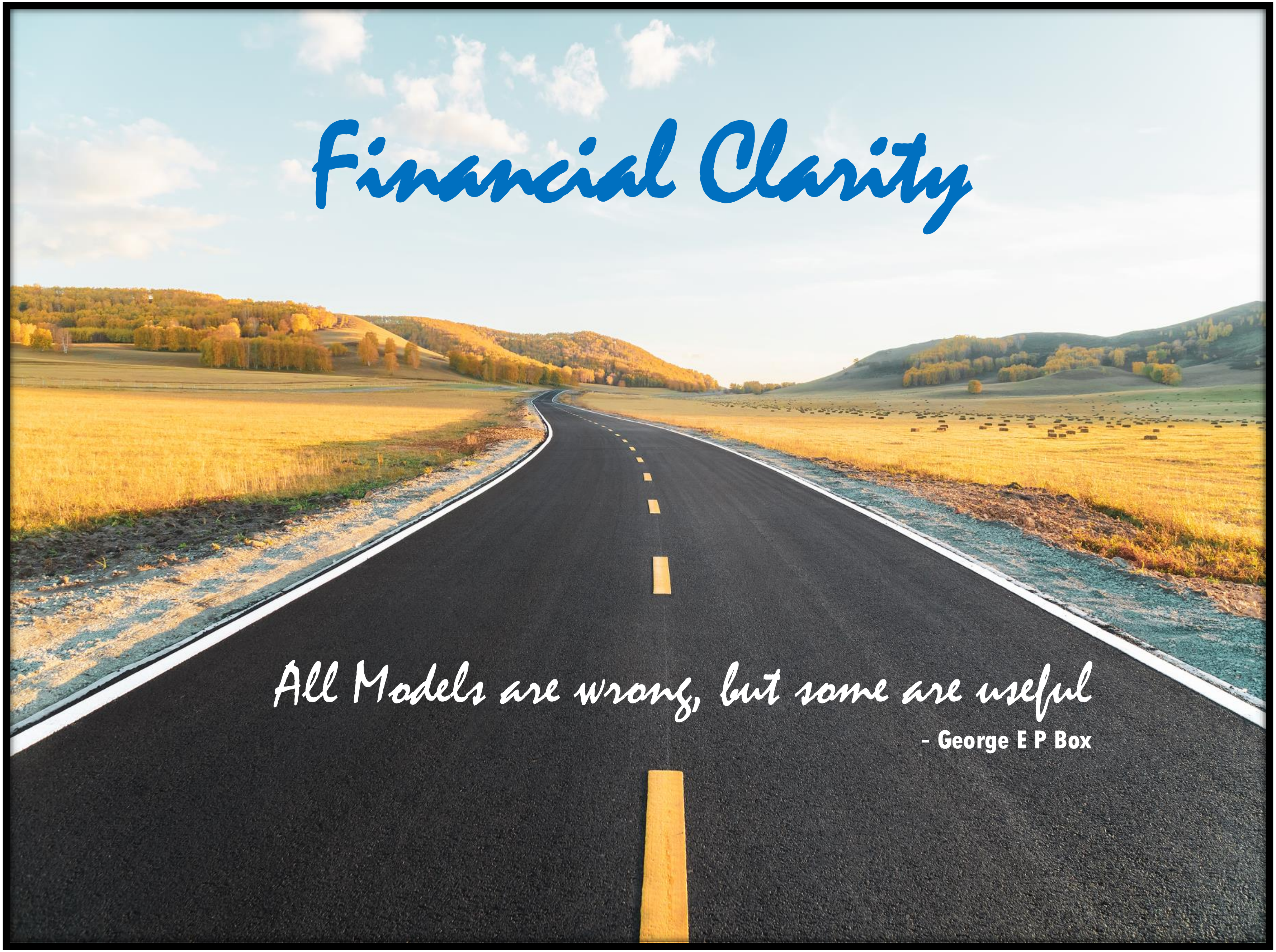
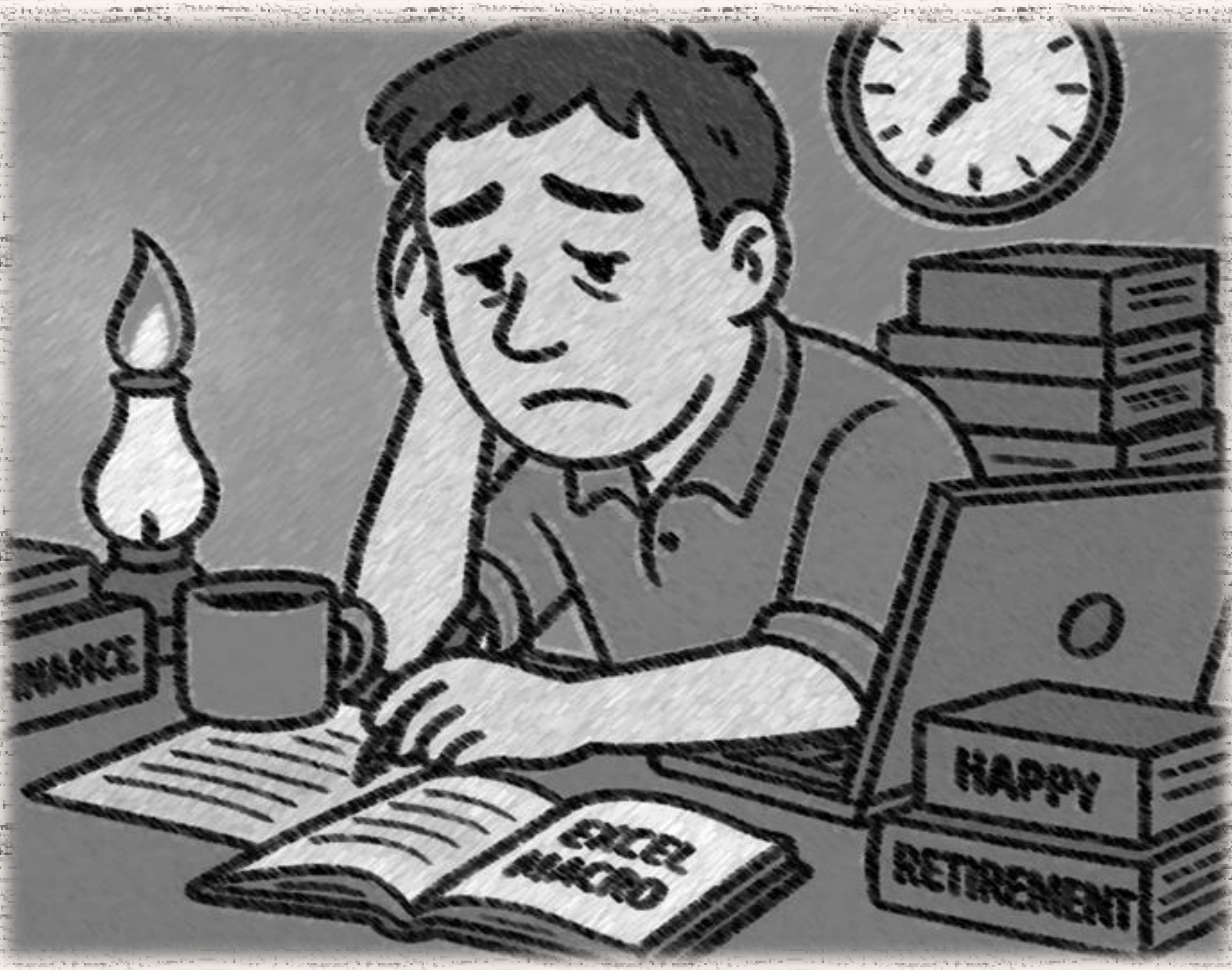

Financial Clarity
All Models are wrong, but some are useful
- George E P Box

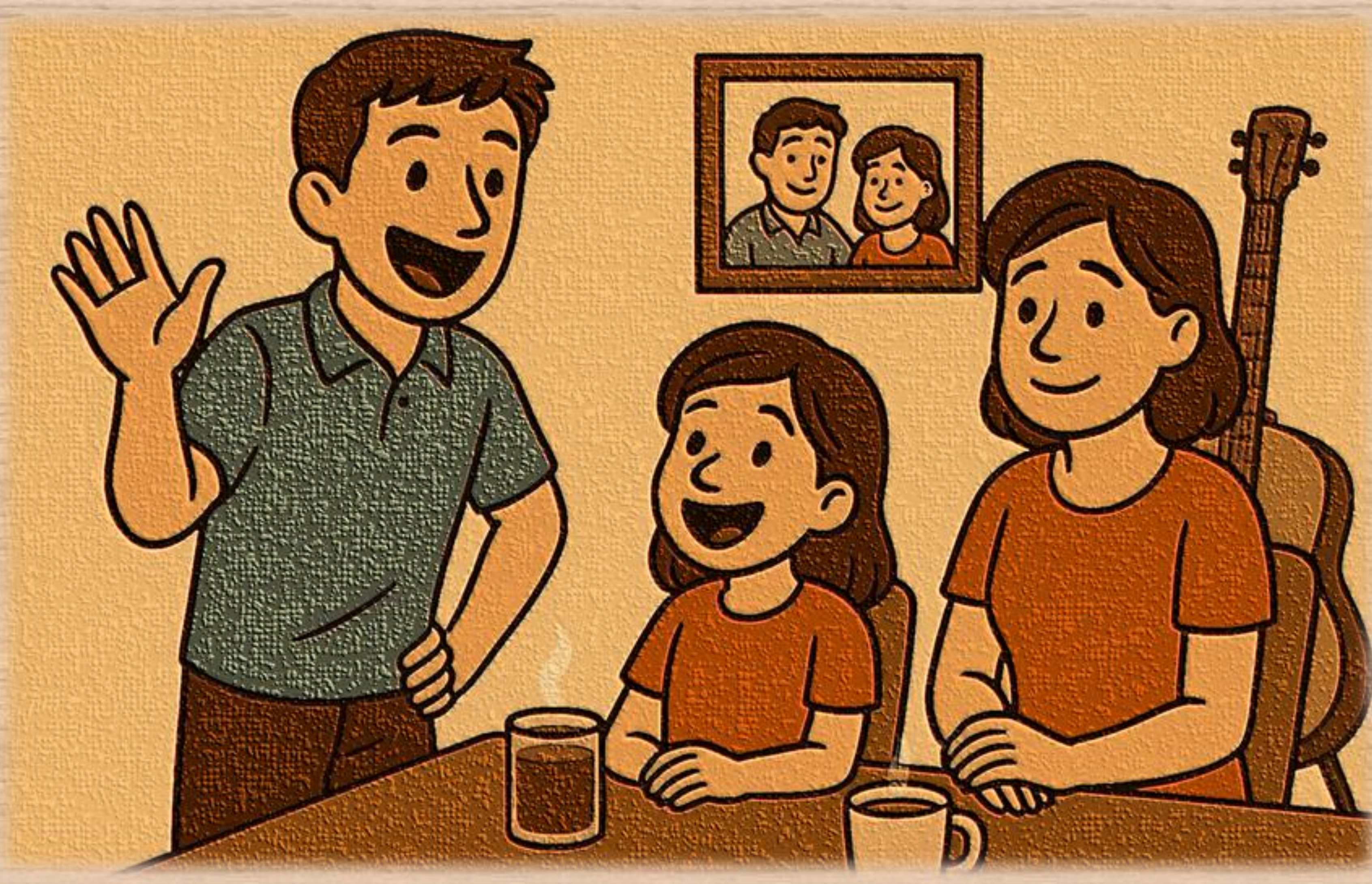
All Work and No Play?

Is there a way out?



Voilà!

HOW TO: Make Life Great Again!



Life is Great Again!

I must toil full-steam until…

- I have a million dollars
- I'm 65
- My kids are in college
- My pension starts
- My savings produce 80% of my salary

I must spend carefully because…

- **We might run out of money**
- **We maybe overspending**
- **We can't give away money**
- **We can't afford care or assisted living**

Methodology

Income and Spending for each year ahead is known in advance

Ending Balance of Any Future Year =

(Ending Balance of the Previous Year)

– (Annual Expense)

+ (Annual Income)

+ (Annual Investment Growth)

Financial Security = Solvent until age 100 (+/- 5 years)

Meet Lisa

- Single working woman at 50
- Modest lifestyle
- No financial obligations except mortgage for 20 years

Lisa's Model

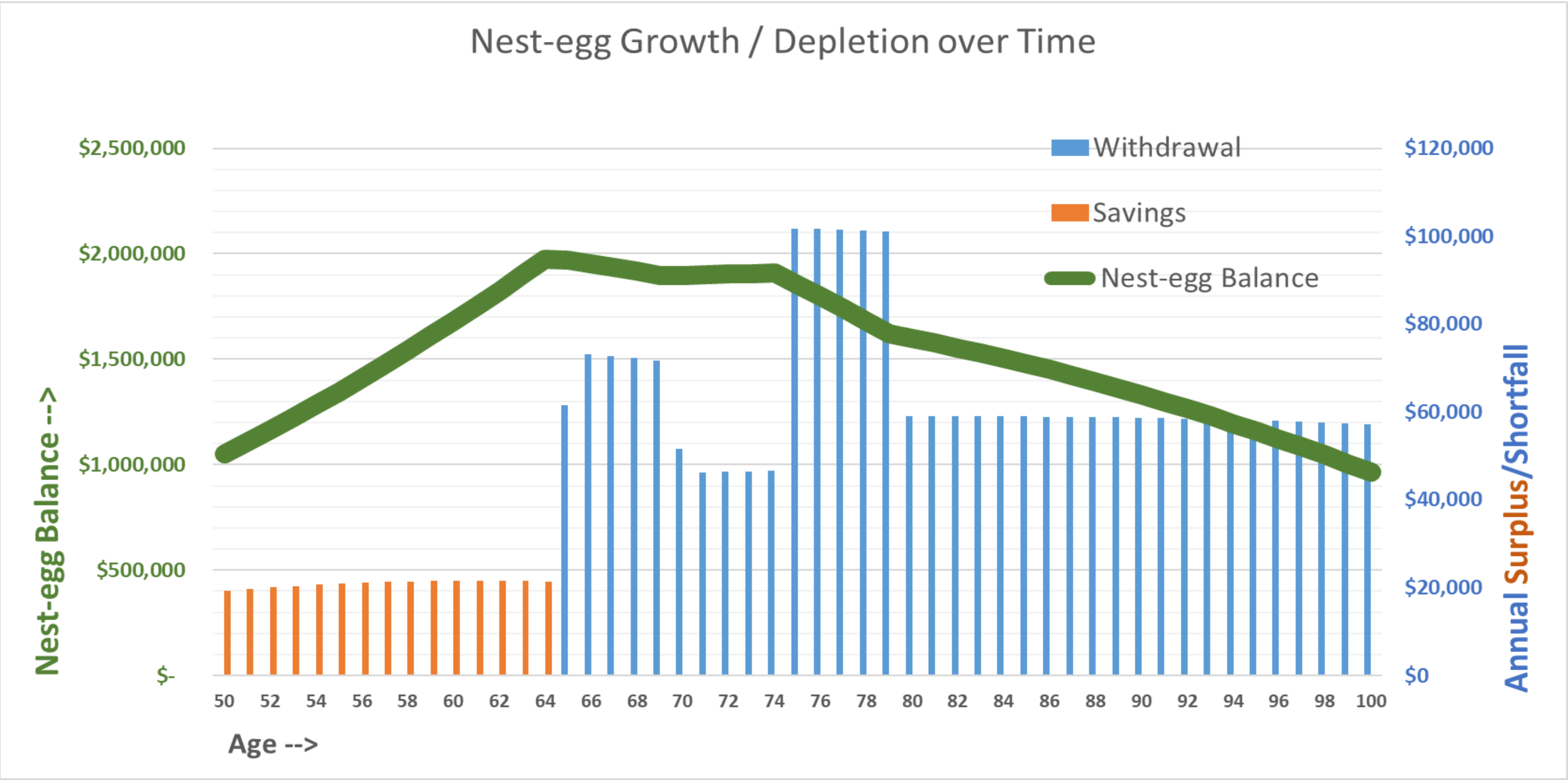
Planning Year	2025

Savings, Investments & Financial Asset	
Bank Accounts	00,000
403(b)	800,000

Money Lasts Until Age: 120 Years

Expense	Amount		ar	End Year	Inflation Adjust?
Primary Home - Tax + Insurance + HOA			0	9999	☑
Other Insurances		al	0	9999	☑
Utilities		onthly	0	9999	☑
Household & Personal Expenses		Monthly	0	9999	☑
Discretionary spending	00	Monthly	0	9999	☑
Vacation	$3,000	Annual	0	9999	☑
Misc	$2,000	Annual	0	9999	☑
Medical Out of po	$3,000	Annual	0	9999	☑
Mortga Primary Home	$2,750	Monthly	2022	2045	☐
Post-r nal costs (permanent)	$500	Monthly	2041	9999	☑
Post-reti avel/splurge	$5,000	Annual	2041	2046	☑
Additional ealthcare cost	$1,000	Monthly	2055	9999	☑

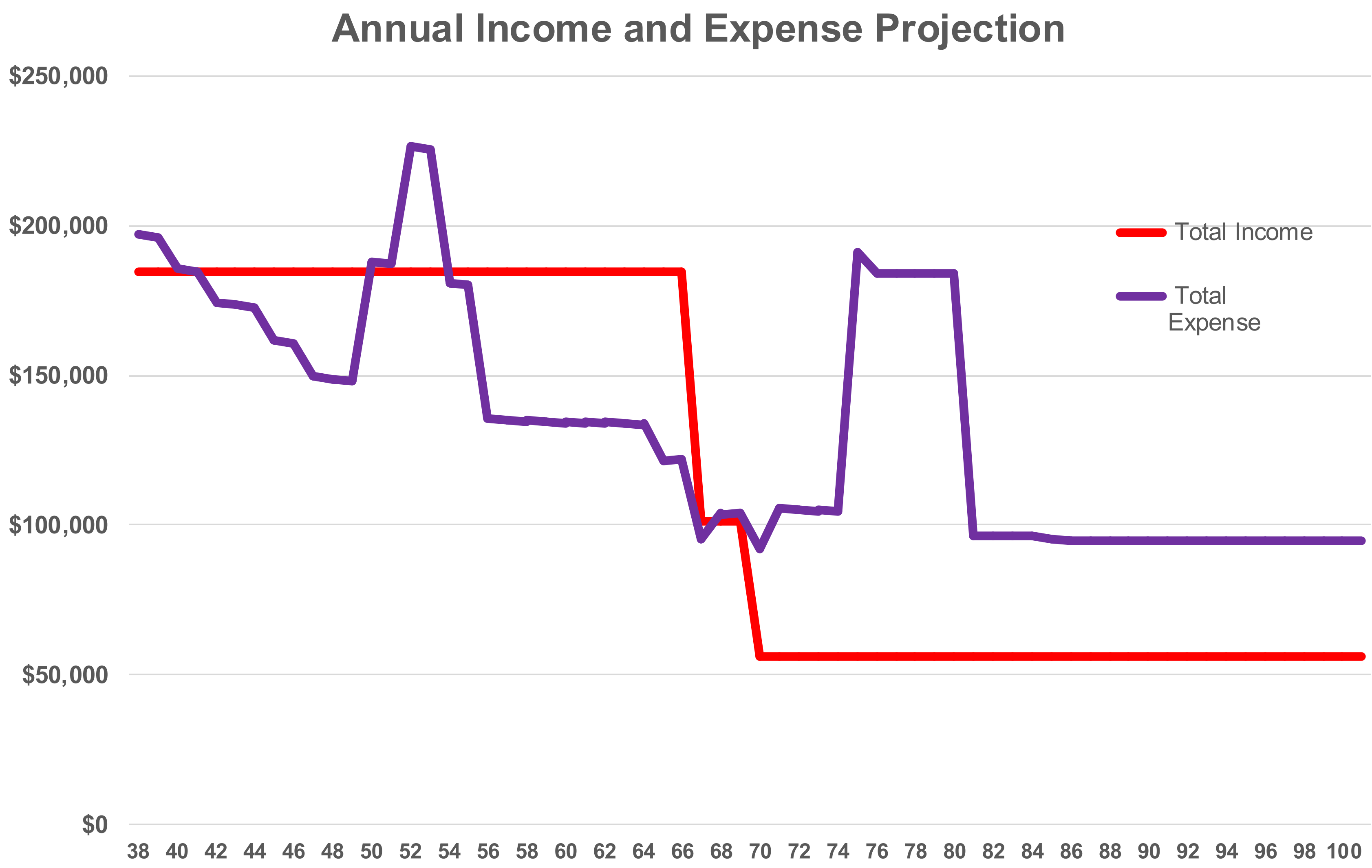
Lisa is doing great



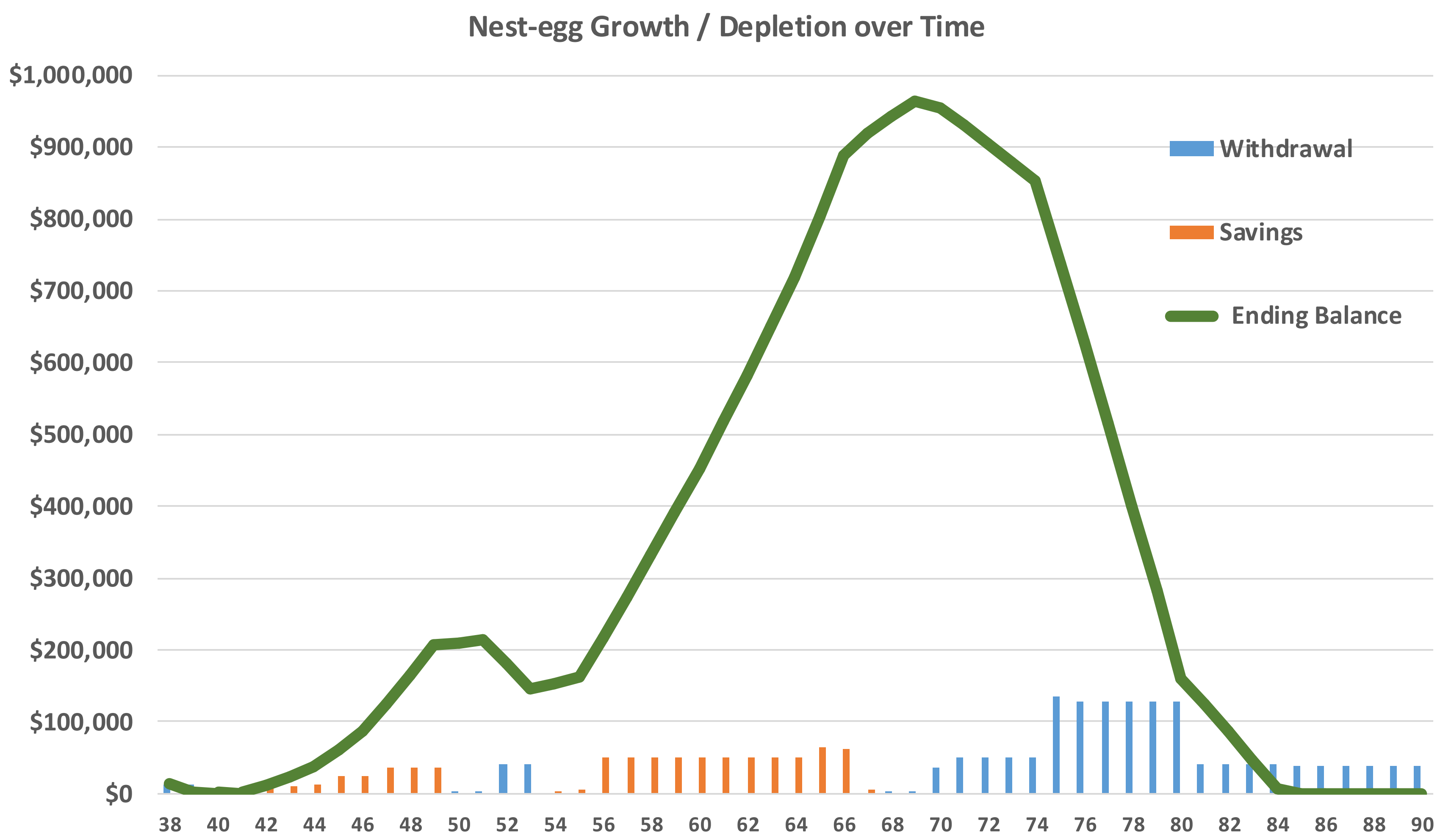
John, Mary and the Kids

- Working couple in mid-30s
- YOLO lifestyle
- Negligible savings left after buying a house

Buy Now Think Later



Eyes Wide Shut



Our Nest-egg

Money Stream

- A money-stream represents a **recurring** annual income or expense
  - Increases or depletes our money pot
- In any year, we have multiple money-streams
  - Most recur from last year, but new ones appear too
- Typically lasts multiple years
  - Most end at a future year, but some last forever

Our financial life has tens of separate, independent money streams that we can estimate beforehand with reasonable accuracy

Money Stream Characteristics

- Either incoming (income) or outgoing (expense)

- Has a life-time (start-year and end-year: both optional)
  - Applies now and continues indefinitely
  - Applies now but ends on a future year
  - Starts on a future year and continues indefinitely
  - Starts on a future year and ends on a future year

- The annual amount is fixed either in inflation-adjusted terms or in nominal terms

A money-stream is ***immutable***

Example: Incoming

Income	Start	End	Inflation-adjusted?
Salary / Earned Income	-	<Retirement>	Y
Temporary 2nd Job	-	Custom	Y
Rental Property	-	-	Y
Alimony	-	Custom	N
Child Support	-	Kid at 18-year	N
Social Security	<Retirement>	-	Y
Pension	<Retirement>	-	N
Post-retirement Parttime Job	Custom	<Start +5>	Y

Example: Outgoing

Expense	Start	End	Inflation-adjusted?
House related (permanent)	-	-	Y
House financing costs	-	<Loan-end>	N
Personal / Student Loan	-	<Loan-end>	N
Living cost (permanent)	-	-	Y
Set-aside fund for future major expenses (house, car)	-	-	Y
Daycare	-	Kid at 6-year	Y
College Education	Kid at 18-year	Start + 4 years	Y
Post-retirement travels	<Retirement>	Custom	Y
Workplace Medical Premium	-	<Retirement>	Y
Medicare Premium	65	-	Y
Old age healthcare needs	75	-	Y

The Process

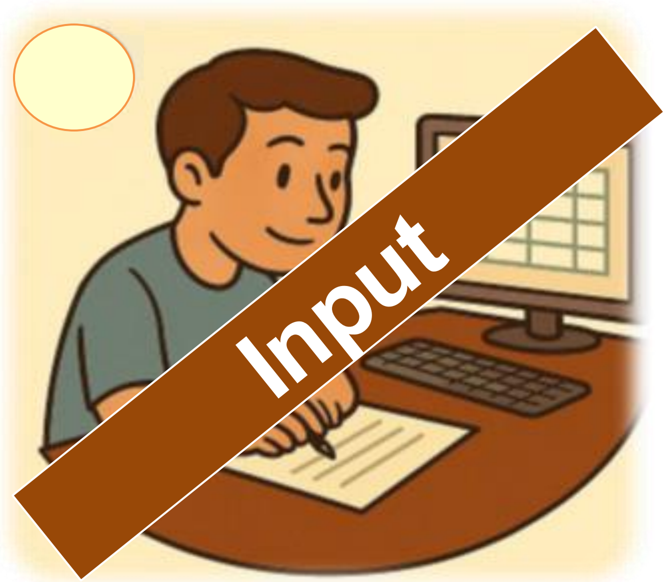
Think

Input

Review

Adjust

Planning Year	**2025**	
Married / With Partner?	☑	
Personal Information:	**Self**	**Spouse**
Year of Birth	1987	1990
Pre-retirement Income:		
PreRetirementIncome-Annual	$125,000	$75,000.00
RetirementAge	67	67
Annual Gross Income from Rental Property	$0	
Annual Gross Income from other Investment Prop	$0	
Additional Temporary Annual Income 1	$0	
Temporary Income 1 End Year	2025	
Additional Temporary Annual Income 2	$0	
Temporary Income 2 End Year	2025	
Additional Temporary Annual Income 3	$0	
Temporary Income 3 End Year	2025	
Social Security Details		
Social-Security at Full Age (Annual)	$32,000	$24,000.00
Claim Social Security at Age:	67	67
Optional Post-retirement Income		
Gap Years Before Post-retirement Job	3	3
PostRetirementJobIncome-Annual	$0	$0.00
PostRetirementJobDurationInYears	5	5
Pension - Annual	$0	$0.00
Pension Start Age	65	0
Money Lasts Until Age:	**81**	**Years**



Basic Info

- Reference Year
- Solo / Combined
- Year of Birth
- *Various Assumptions*

Income

- Gross Income, Retirement Year
- SS, *Claim Year*
- *Temporary Incomes*

Financial Assets

- Aggregate Balances
- *Asset Allocation*
- **No double-counting**

A few notes about Expenses

*****Very important** to get this approximately right***

This isn't a budgeting exercise: No need to categorize every single spending

Start with your present annual spending to identify individual Money Streams **(https://dollarmentor.org/how-much-do-you-spend/)**

Ensure that:

- Most Expense Money-streams are accounted for
- Amount and lifetime for each is about 90% accurate
- Payroll and Federal Taxes are built-in. Do not enter separately.
- Break-up a single payment to multiple money-streams if necessary
- Account for Ghost Expenses, Post-retirement lifestyle expenses

Many expense money streams are auto-generated

- Medical Insurance if retiring prior to 65
- Medicare premiums
- Long-term care costs (optional)

Final Thoughts

It's a binocular, not a microscope

- Simplifications and assumptions introduce errors. Built-in buffers err on the side of caution
- Use it for major directional decisions, not everyday accounting

Do not ignore flashing warning signs in the initial setup

- Check inputs for data-entry errors
- Adjust your plan accordingly

Review/Adjust Parameters if needed

- Tweak defaults configurations if yours is different (E.g., State Tax)
- Avoid updating any existing formula/macro

Refresh periodically

- Refresh ref year, income, account balance, expense, as needed
- Do not overreact if you are suddenly off the target

Thank You

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