The Million Dollar Question

How would you like to be given a money vault with a million dollars cash in it when you leave your job to retire? The financial independence choices this amount of money would represent would be huge. You could pay off your mortgage, start a business, support a charity, buy a family vacation home, or use it to produce income to better afford the lifestyle you desire.

The only caveat is that the money safe stuffed with a million dollars would not be a gift from the state lotto or the result of a get-rich-quick scheme. The reason "easy come" money plans are so cheap compared with their elusive payoffs is that they so seldom pay off.

The odds are very good that luck alone won't open your money safe or any other doors that lead to financial freedom. To crack this safe, you will need to know the combination.

You could proceed by spending all your energy trying a seemingly infinite combination of numbers, hoping to hit upon the right sequence with no additional effort on your part and no guarantee of success. Or you could systematically plan and create your own combination of numbers that, when used together, would help you lay claim to your million dollar prize.

The million dollar safecracker example:

Safecracker: "Phil" Current age: 35

Current annual household income: $75,000

Current investment value already saved: $25,000

Years until payday (retirement): 30

Phil's combination for a million dollar payday: 06–3–30–8

Annual long-term savings rate: 6% ($4,500 annual = 6% of current salary)

Annual increase of savings rate: 3% (resulting from salary raises, promotions, debt payoff)

Years until money safe opens: 30 Age:65

Average earning rate of return assumption: 8%* (Investment objective = capital growth)

Future payday: $ 1,000,000

But wait. Call the sheriff. Someone or something has robbed over half of Phil's future value money stash! The thief is an often-overlooked villain—inflation. If the compounded cost of

living increases by the historical average of 3 percent annually, Phil's payday amount of $1 million would only purchase $411,987 in thirty years, when the money safe would be opened.

To protect the future purchasing power of $1 million, Phil would need to adjust his safe combination numbers to 18–3–30–8 (see below) to purchase the future financial equivalent of $1 million today. The inflation-adjusted payday goal, then, should be $2,427,262.

The first digit of this combination represents saving 18 percent ($13,500) of current salary as opposed to 6 percent ($4,500), the savings rate originally chosen to reach $1 million. This annual savings goal may be too ambitious for most people to implement, at least initially. If so, alternative combination sequences can be considered to accumulate the pre-inflation-adjusted number of $1 million, which would be $2,427,262 after adjusting for inflation.

Possible Money Vault Combinations: With Inflation Adjustment on $1 Million

Combinations:	#1	#2	#3	#4	#5
Annual long-term savings rate: (%)	18	13	14	9	28
Annual increase of savings: (%)	3	3	05	3	3
Years until money safe opens:	30	35	30	30	30
Assumed average annual earning rate*: (%)	8	8	08	10	4

Notice the last column of combination numbers (#5) results in the highest required savings-to-income percentage (28 percent). This is the cost of choosing short-term account value certainty. That means choosing low market value fluctuation through lower-return potential investments (4 percent) as opposed to choosing less certainty in the short-term because of higher market value fluctuation in the short term, but higher return on potential investments (10 percent) over the long-term. This provides the opportunity for more savings and greater certainty of inflation-adjusted value for the future, with less money in net contributions on your part. (Compare combinations #4 and #5).

*Note: Investment-return assumptions are not guaranteed. Income tax costs are not included.

Other money vault enhancements: Include employer matching funds if applicable and you are participating in a company 401(k) plan. If using a traditional tax-deductible 401(k) plan, deposit tax savings amounts into the vault. Invest periodic windfall amounts into your savings vault. Marry a wealthy person. (Just kidding. This could cost you more over the long-term.)

Click here to access a free "Becoming a Millionaire" calculator to discover your own million dollar vault combination.

http://www.calcxml.com/calculators/be-a-millionaire

Jim Collier, author of ***Retirement is Recess for Grown-Ups*** and the blog ***The Retired Retirement Planner,*** is the founder of Retir**ED** LLC, a nonaffiliated retire ready resource company located in Larkspur, Colorado.

For more retirement planning education topics, visit www.retirementrecess.com or email jim@retirementrecess.com.