R etirement
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Your Personal Economic Model

How to view your finances

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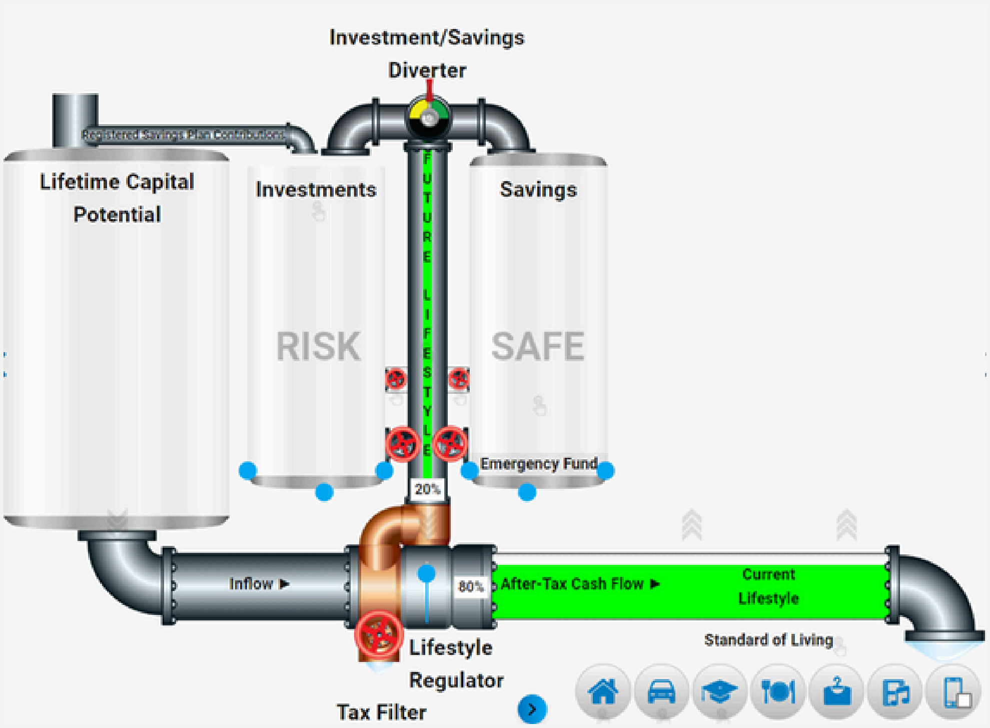
What is the Personal Economic Model (PEM)?

Your Personal Economic Model (PEM) is based on a your personal situation. In short, it describes everything that you do within your personal financial plan.

At PensionizeMe Wealth Services (PMWS) we use the PEM as the foundation of your retirement plan. We could try to describe PEM in words, but it would require some thought as well as visualization. So, instead we will present it visually.

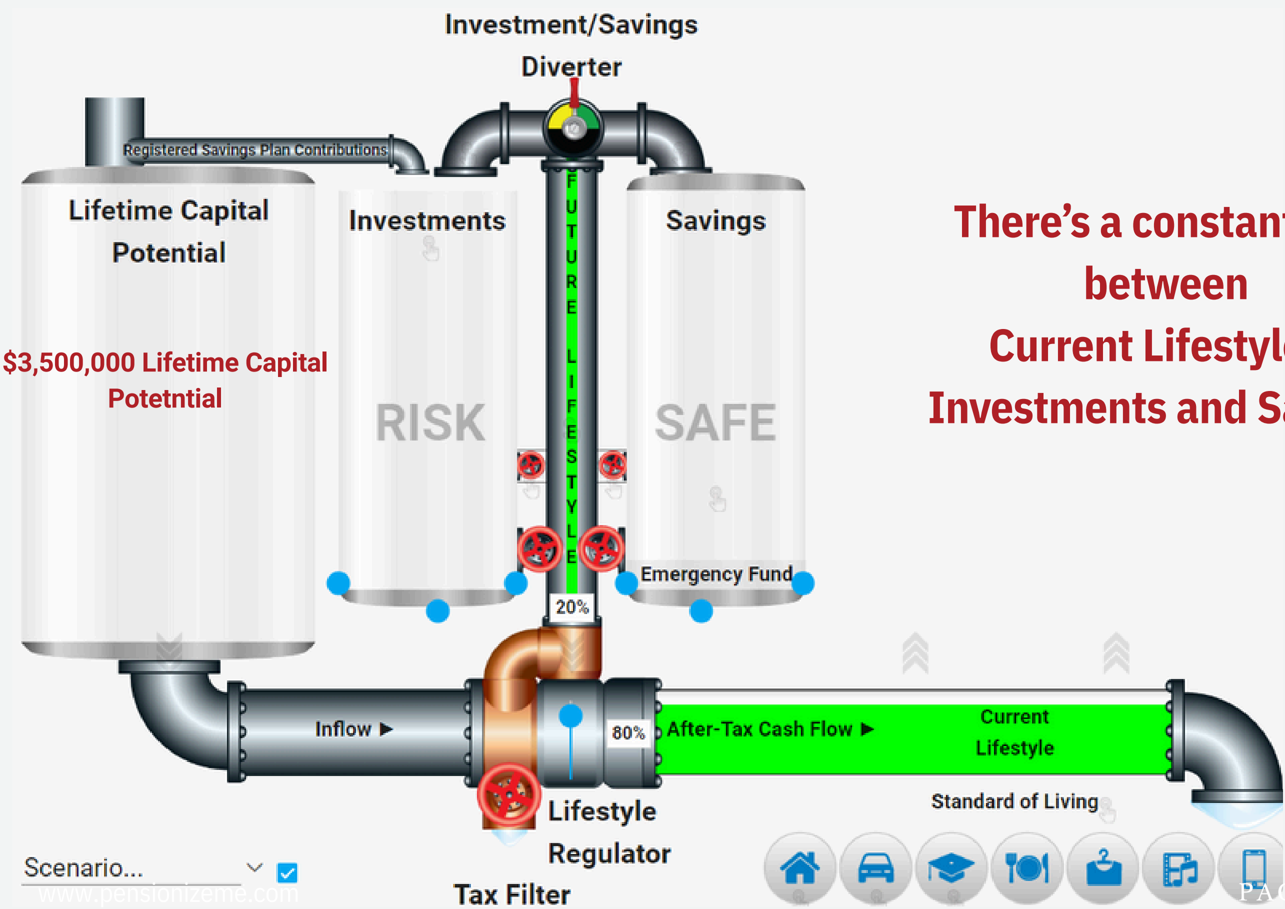
When you look at the diagram below, you will notice that the PEM model looks like a tank system with connected piping. This is intentional because money, just like water, can flow through your fingers if you don't have control over how your finances flow. There's a reason it's called "cashflow".



The Tanks - Lifetime Capital Potential

This fist tank is the largest on in the group. The reason is, a lot of money will flow through that tank during your lifetime. To make the numbers easy, let's assume you are 30 yrs old, earning $100K per year and you want to retire at 65. Your LCP is $100K x 35 yrs (65-30) = $3.5 million. This tank is literally a flow through tank, and no money accumulates in it. Some money may be taken off before entering the tank and directed to the RISK tank for your retirement, the net amount will flow into the tank.

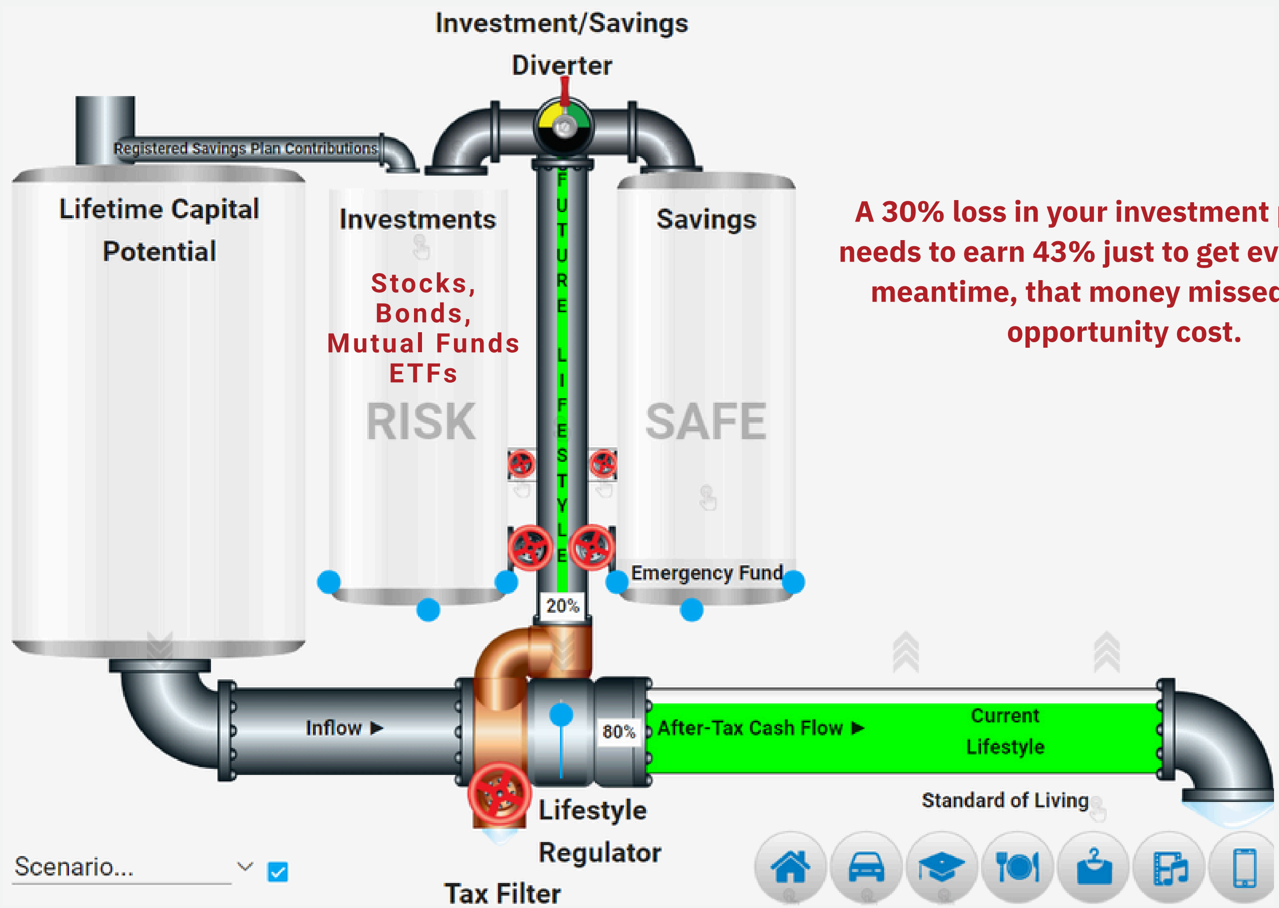
From there your money starts its journey into the inflow pipe where it hits the first filter – taxes. Once the taxes are paid there are really two options. The first is you let the money to continue to flow to the right and pay for lifestyle. Or you divert some of your money up to the RISK and SAFE tanks. The diverter can determine how much goes to savings and how much to lifestyle. One thing to keep in mind, once the money has flowed out for lifestyle it cannot be recovered. Any spending today is depriving you of your future lifestyle.



The Tanks - Risk Tank

The RISK tank is an investment tank that is subject to market fluctuations (risk). If your tank is a retirement plan tank, then you will not have easy access to your money. Any withdrawals will be subject to taxes. If it is an open investment account, you are still subject to market fluctuations and likely taxation along the way. Investments in a RISK tank include: stocks, bonds, mutual funds, ETFs etc.

Growth investments certainly help build wealth over the long term. The challenge is any losses can be difficult and may take time to recoup. A loss of 30% in an investment requires a 43% return just to get back to even. A 50% loss requires a 100% return. Even though losses are recouped over the long term, there is an opportunity cost those dollars could have earned. There is a big difference between appreciation and depreciation of an asset vs uninterrupted compounding.



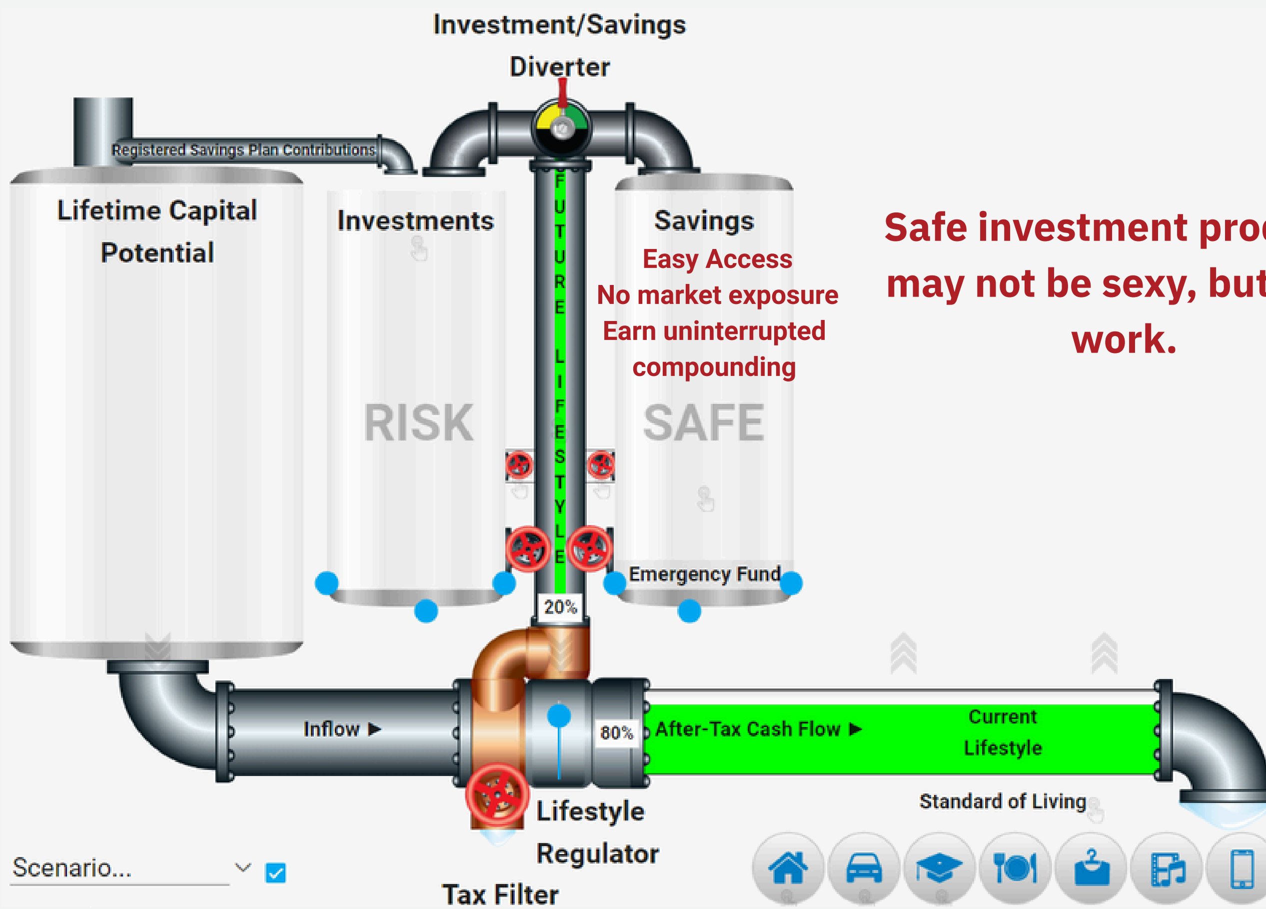
A 30% loss in your investment portfolio needs to earn 43% just to get even. In the meantime, that money missed out on opportunity cost.

The Tanks – Safe Tank

When you are looking at the SAFE tank two things must come to mind. First, the investments in this tank should be free of market fluctuation because you may require access to the cash. Second, unlike the RISK tank, your money should be easily accessible.

Products held in the Safe tank aren't the sexiest ones available. They are rarely talked about at dinner or cocktail parties until they are suddenly a solution to a problem that should have been implemented a long time ago.

There are opportunities to hold products that provide easy access to capital in times of emergency, are tax advantaged, and earn competitive returns that compound uninterrupted. Not having easy access to your capital is usually the biggest stressor. That's when you start using credit to fill your needs which can become a slippery slope.

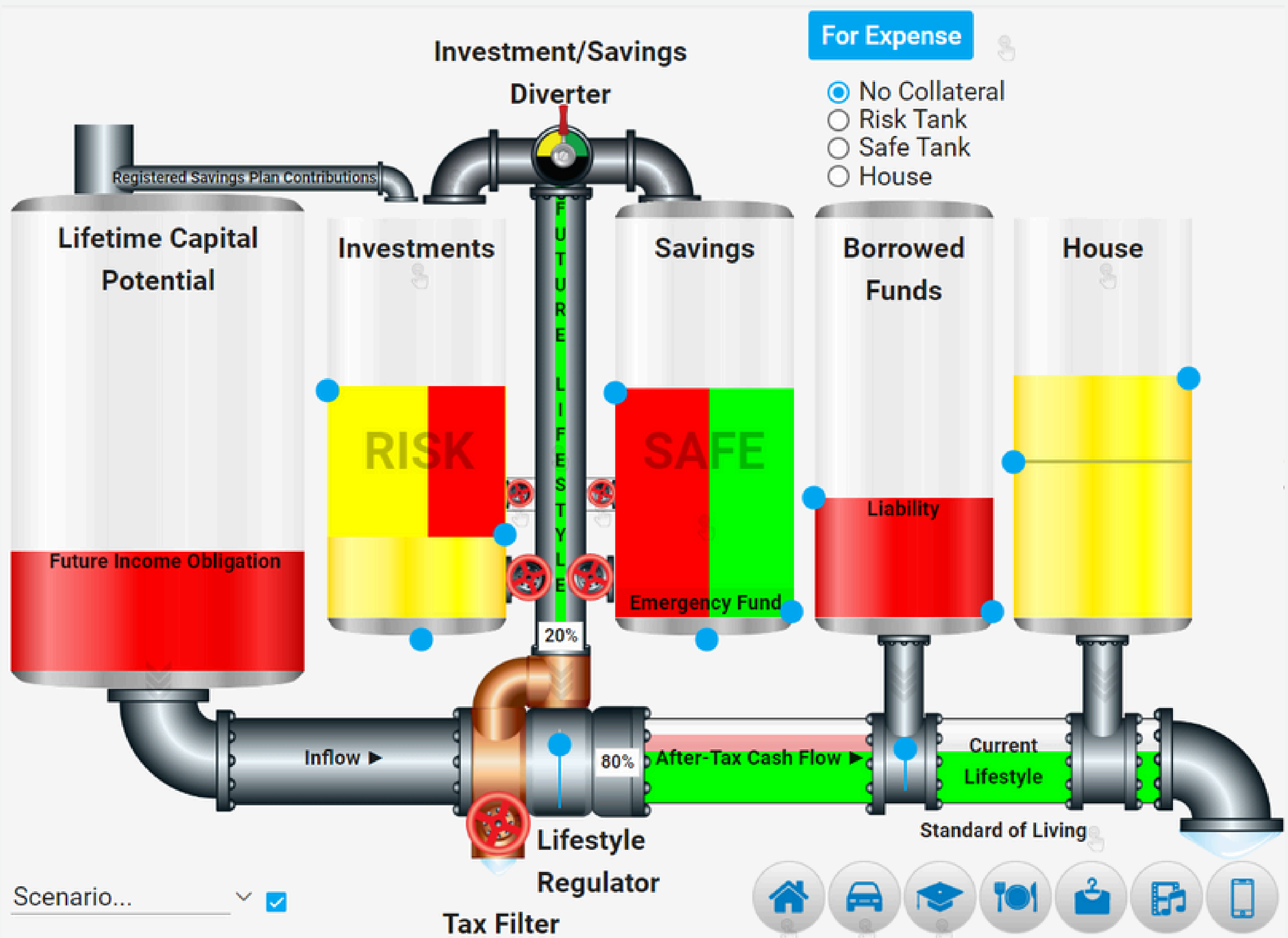


Safe investment products may not be sexy, but they work.

Tanks -There's more !

In this pamphlet we simply outlined the first three tanks that start the process. In fact, when it comes down to doing a full strategy for a client we actually look additional tanks, mainly borrowed funds and your house.

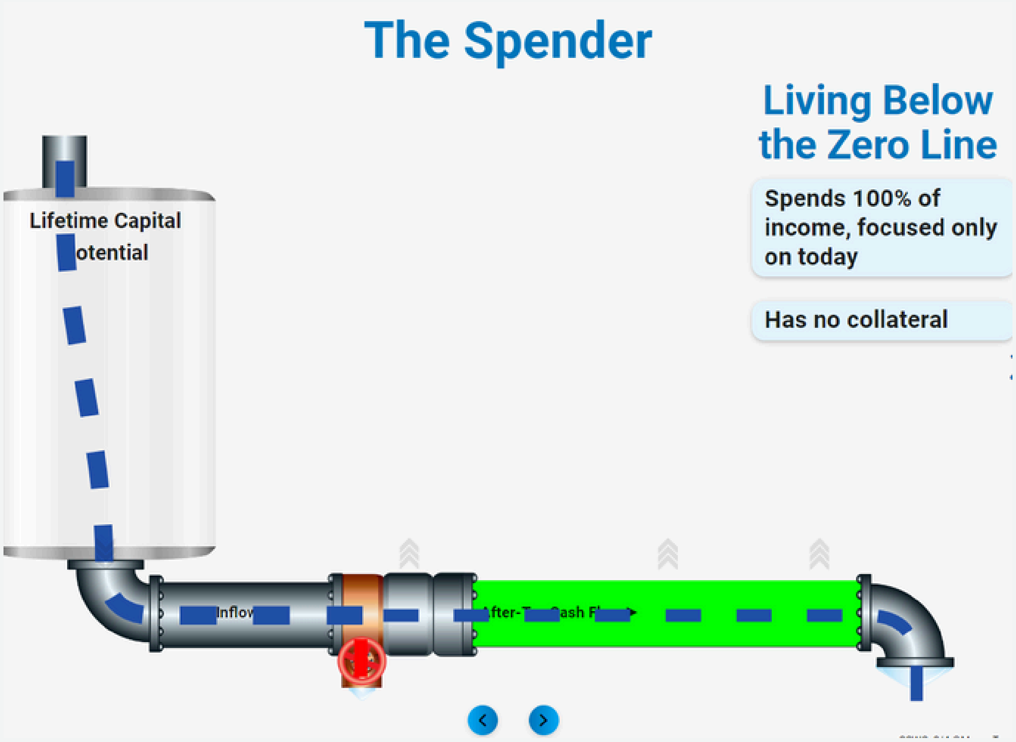
The picture below shows how each tank may be in a current position. From there further scenarios would be built and adjustments to the tanks would be illustrated.



No Tanks - Lifestyle Only

Regardless of how much money someone earns, they can easily fall into the "No Tank" scenario. We call this "living below the zero line" and they would be classified as "The Spender" profile.

In the no tank scenario every dollar earned in the Lifetime Capital Potential tank is spent on lifestyle. The person has no collateral and may also rely on credit for unexpected expenses.



Summary

Now that you have been introduced to the PEM model and you are thinking about your retirement, all you have to do is ask yourself one question. What do you want your financial future to look like? Actually, let's rephrase the question and you can finish the sentence with the choices below:

I want my retirement lifestyle to be…

1. Better than it is today.
2. At least as good as today.
3. Worse than it is today.

If you're like most people, you probably chose #1 or #2, nobody wants to be worse off.

PMWS offers a no obligation free view of your retirement situation. We call it a 20/20 in 20. This means, together we will the 4 most important retirement questions.

Unlike our competition, once you have completed to 20/20 in 20 we will not be constantly calling you to become a client. We will let you decide when you are ready to come work together. In the meantime, you will have access to our resources to build your knowledge and confidence when it comes to your finances.

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