

FINANCIAL INDEPENDENCE

AND KNOWING WHEN TO RETIRE

SAVITRI WILDER
SAVITRIWILDER@GMAIL.COM

DISCLAIMER

This presentation is to be used as a starting point to your financial success.

I am not here as a financial advisor and will not be available to advise after the presentation.

We each have our own life goals with unique financial needs. The information that you will receive today will not fit all goals, but I hope it will help trigger something within you to start planning for your financial future. This short presentation will not give you everything you need to know. Take the time to educate yourself more. There are many, many great books, websites, podcasts, etc. to help you take the first steps toward financial independence.

For one-on-one assistance with your finances, contact A&FRC and schedule an appointment with a counsellor.

A&FRC

Individual financial consultant

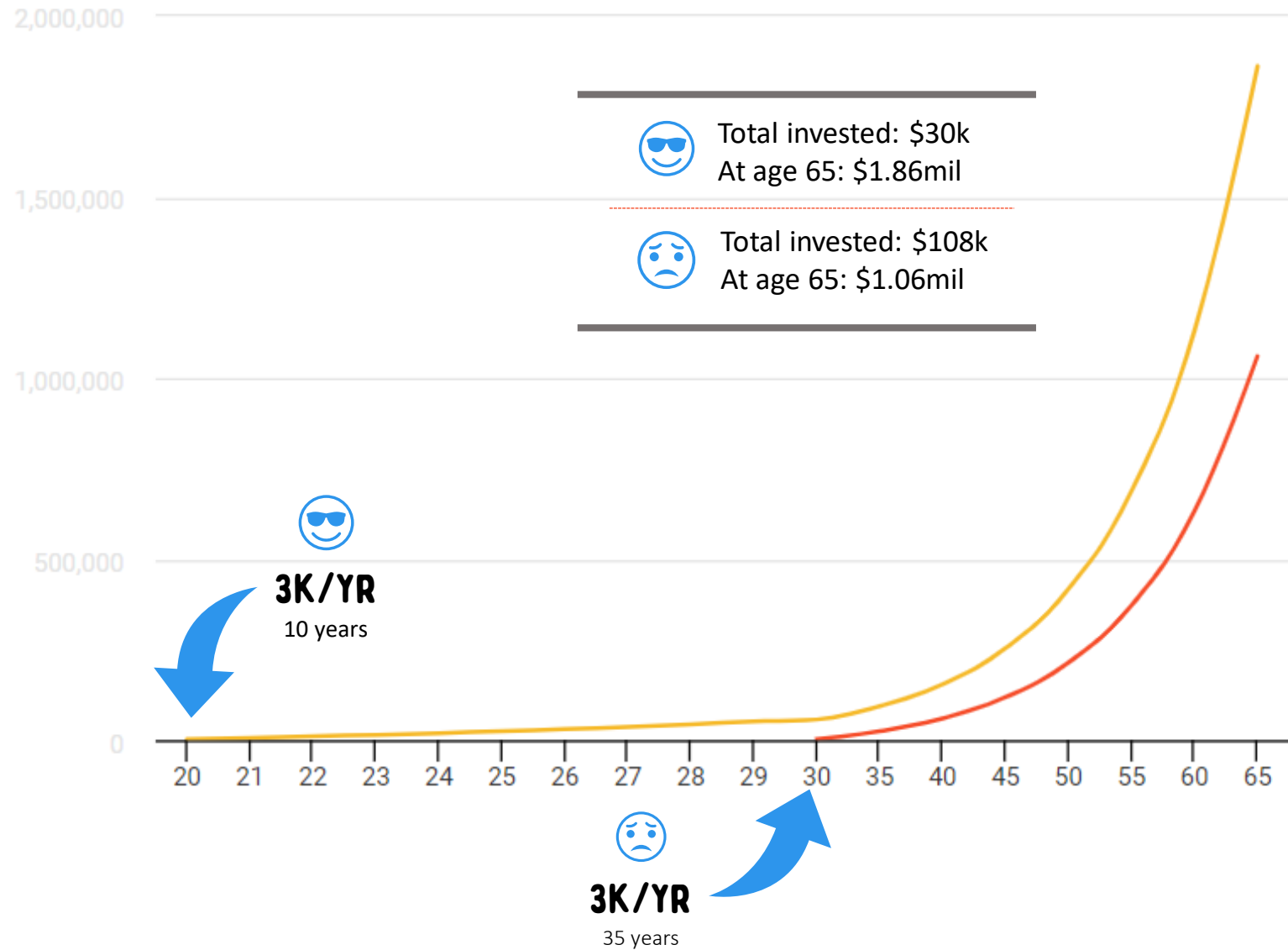
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[Website](#)

NOW VS 10 YEARS FROM NOW

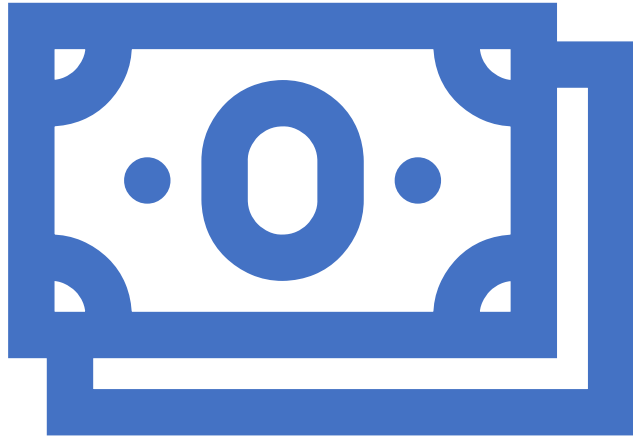
Two people
\$3,000/yr
10yrs apart start time

Example based on 10% yearly interest



WHO WOULD YOU RATHER BE?

Compound Interest



- The good, when you take advantage of compound interest, it can make you money
- The bad, when you aren't careful, you can get into a lot of debt



30% BUDGET

50% LIVE
PAYCHECK TO PAYCHECK



OVER 80%



MAKE MORE THAN \$40k/yr



Americans hold over \$1 trillion in credit card debt



Total outstanding auto loan debt totals \$1.22 trillion

THE AVERAGE AMERICAN

US population in 2019 census: 328.2 million

Auto Loans

- The average new \$28,667.30
- The average used \$17,241.59
- The average monthly payment \$499
- 62% of loans had terms longer than 60 months

Savings & Retirement

- 19% have \$0 saved to cover emergency expenses; 31% have less than \$500 in emergency savings
- Average savings is \$33,766.49 but the median is only \$5,200
- 13.7 percent of Americans have \$0 saved for retirement
- By retirement age, 27% are more likely to have no retirement savings
- The median net worth at age 35-44 is \$14,226
- The average Social Security benefits paid out in 2016 was \$1,354.04 per month

Credit Cards

- National average APR = 15.59%
- 157 million Americans have credit card debt
- Average balance \$16,245

AS AIRMEN, YOU HAVE THE MEANS TO NOT FINANCIALLY BE THE AVERAGE AMERICAN!

FINANCIAL INDEPENDENCE

Two words-many meanings

FI can mean different things to different people

- Freedom from debt and having enough saved for any small or big emergencies/life events
- Freedom to be able to transition from one job to the other without any financial stress
- Freedom to pursue any passion, whether it makes money or not
- Freedom of choice
- Having assets that produce income substantial enough for one to live on for the rest of one's life
- The steps to reach FI are easy but to actually do the work can be challenging.

RETIRE EARLY

Is optional, and retiring now is a bit different than the past

Financial freedom gives you the choice to do whatever you want.

- You can, especially being in the military, having the choice of never working again after 20 years in service.
- Dedicate your life to something you are passionate about, travel the world and freelance from the beach -- be a YouTube star you want to be or be the author of best selling books. Start a non-profit or a business.
- Fish all day everyday.

HOW YOU SPEND NOW DETERMINES YOUR TOMORROW



BUDGET

**ELIMINATE
DEBT**



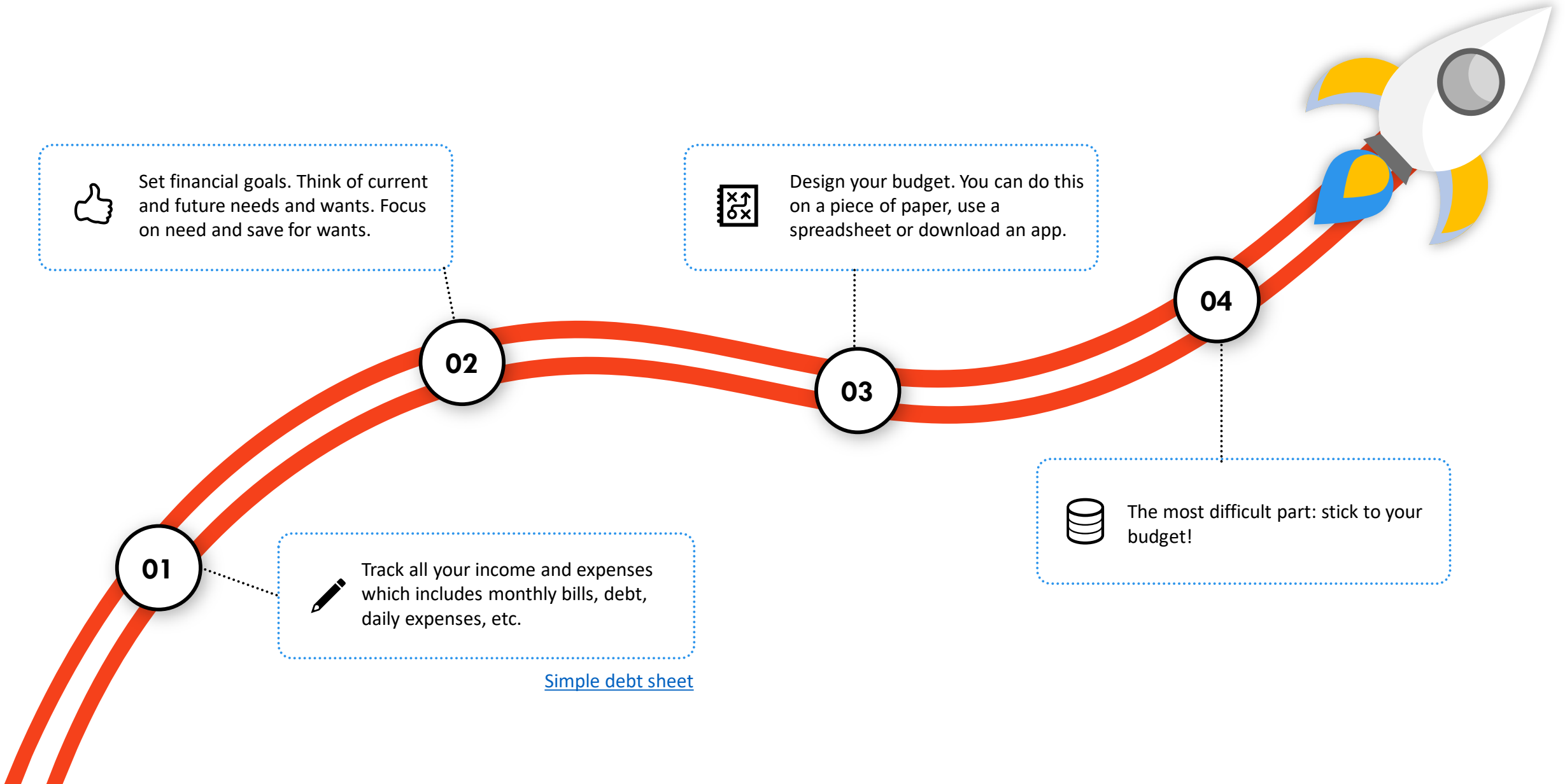
SAVE

**PAY
YOURSELF
FIRST**



**READ &
LISTEN**

BUDGETING STEPS



Set financial goals. Think of current and future needs and wants. Focus on need and save for wants.

02



Track all your income and expenses which includes monthly bills, debt, daily expenses, etc.

[Simple debt sheet](#)



Design your budget. You can do this on a piece of paper, use a spreadsheet or download an app.

03



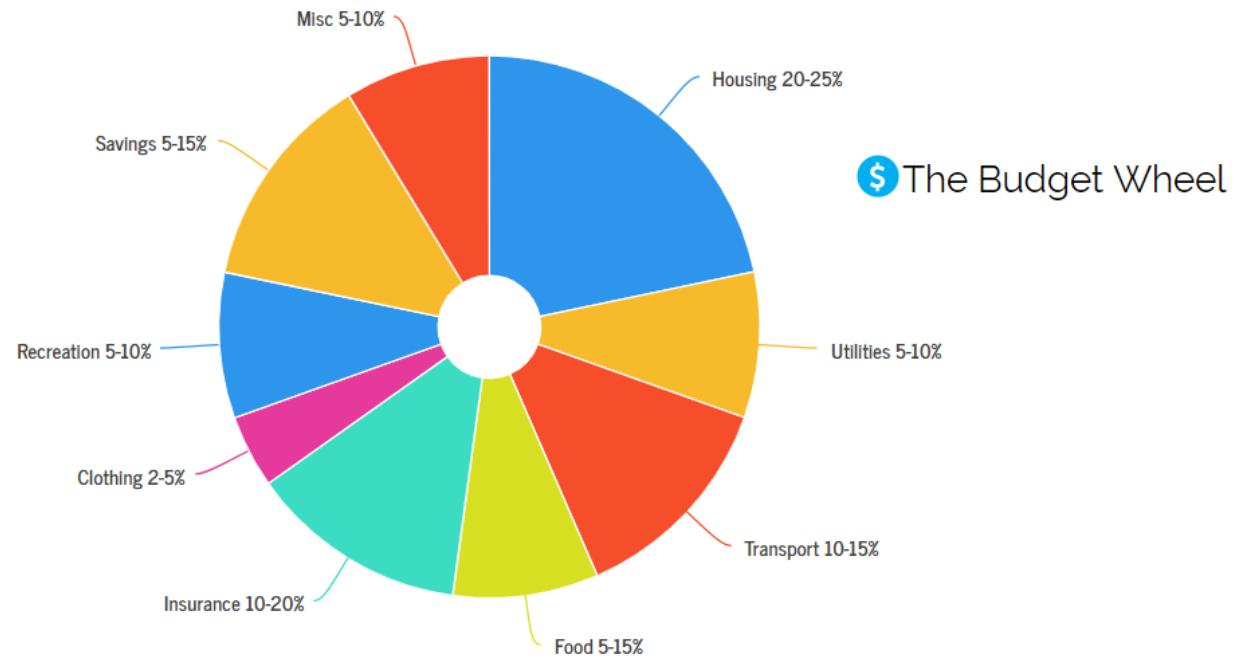
The most difficult part: stick to your budget!

04

BUDGET WHEEL

A general guideline to help you to create your budget. Your percentages may vary due to family size and financial goals.

Basic Budget Sheet: bit.ly/2Kwgew5



WHY EMERGENCY BEFORE DEBT?

To avoid borrowing money or using a credit card which you may not be able to pay back later.

SAVING STEPS

1

FIND WAYS TO REDUCE SPENDING

Ask yourselves, do you need unlimited data, do you need a Starbucks everyday?

2

HAVE AN EMERGENCY FUND

Enough to handle unexpected expenses: a plane ticket home, broken car, vet visit, etc.

3

TACKLE YOUR DEBT

If you have debt, don't just pay the minimum. Find a strategy and aggressively pay off debt. Start from either the highest interest or the highest balance.

4

SAVE 2 – 3 MONTHS PAY

While the military is a fairly stable place to work, one needs to always be prepared. Possible needs: unexpected PCS, med board, COVID 2.0

5

INVEST FOR THE FUTURE

Save money into something that works harder for you than your savings account. If you haven't invested into TSP, now is a great time to do it!

6

SAVE FOR A HOUSE, COLLEGE, DREAM CAR ETC

Go back to step 2 of your budgeting steps. Think of your needs, wants, and dreams. Save for them!

DEBT BE GONE

There are a few ways to eliminate debt. Two popular methods are the snowball method and the debt avalanche method. There are pros and cons to each. It's your choice to pick the best one for your personality, situation, and needs.

SNOWBALL

Method:

List all your debts (excluding mortgage) from lowest amount to highest. Pay off the lowest amounts first by directing all the extra money you have at these while still making the minimum payments on the other loans.

Pros:

This method can give you a quicker dopamine hit

Cons:

There is a good possibility that you will be paying more on interest over time

AVALANCHE

Method:

List all your debt (excluding mortgage) from highest interest to lowest. Focus on paying off the highest interest loan first, again, by throwing all you have, while still making minimum payments on the others.

Pros:

Saves you the most money

Cons:

It can take longer to pay off your debt and thus no quick dopamine hit

SIMPLE SAVINGS IDEA

FIND WAYS TO REDUCE SPENDING

Ask yourselves, do you need unlimited data,
do you need a Starbucks everyday?



- Set up MyPay to automatically transfer x amount to your savings to build up your emergency funds and/or 3-6 month living expenses
- Menu plan
- Buy store brand instead of name brand
- Bring leftovers for lunch
- Don't grocery shop when hungry
- Rent an apartment vs hotel when vacationing
- Make coffee at home or work
- Invite friends over for a potluck and BYOB
- Use the library instead of buying
- Learn how to change the oil in your car and other basic mx
- Learn to cut hair
- Buy a used car rather than new
- Learn ALL the benefits that are available to you

BUT IT'S ONLY A LATTE!

THE LATTE/Cigarettes FACTOR

David Bach <https://davidbach.com/latte-factor-backup/>

1 latte = \$3.50
1 latte/day for a month = \$105.00
1 latte/day for a year = \$1,260.00
1 Latte/day for a decade = \$12,600.00

1 pack = \$7.00
1 pack/day for a month = \$210.00
1 pack/day for a year = \$2,520.00
1 pack/day for a decade = \$25,200.00

IS IT POSSIBLE TO BE FINANCIALLY INDEPENDENT ON AN AIRMAN'S PAY?

DEFINITELY!

BRS: take advantage of the BRS match. It's **FREE** money!

E2 at 2yrs pay: \$1,943/mo,
and investing 10%



\$194.30

= \$291.45

BRS 5% match
FREE MONEY!



\$97.15

X 12 months = \$3,497.40

If, let's say, you are a young family and you can't do 10% just yet or you have a few bills to sort out first, doing less is ok! The point is to start as soon as you can and when you are financially at a better place, more pay and hopefully less debt, you can invest more!

E2 at 2yrs pay: \$1,943/mo,
and investing 5%



\$97.15

= \$194.30

BRS 5% match
FREE MONEY!



\$97.15

X 12 months = \$2,331.60

\$3,500 VS \$2,300

Age	Save early	Amount	Save less	Amount
20	\$3,500.00	\$3,695.50	\$2,300.00	\$2,428.47
21	\$3,500.00	\$7,777.96	\$2,300.00	\$5,111.23
22	\$3,500.00	\$12,287.92	\$2,300.00	\$8,074.92
23	\$3,500.00	\$17,270.12	\$2,300.00	\$11,348.94
24	\$3,500.00	\$22,774.03	\$3,000.00	\$15,704.89
25	\$3,500.00	\$28,854.26	\$3,500.00	\$20,516.97
26	\$3,500.00	\$35,571.18	\$3,500.00	\$25,832.93
27	\$3,500.00	\$42,991.45	\$4,800.00	\$32,233.48
28	\$3,500.00	\$51,188.71	\$4,800.00	\$39,304.24
29	\$3,500.00	\$60,244.34	\$4,800.00	\$47,115.41
30	\$0.00	\$66,552.71	\$0.00	\$52,049.01
31	\$0.00	\$73,521.65	\$0.00	\$57,499.22
32	\$0.00	\$81,220.32	\$0.00	\$63,520.14
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62	\$0.00	\$1,611,200.01	\$0.00	\$1,260,074.31
63	\$0.00	\$1,779,913.71	\$0.00	\$1,392,020.56
64	\$0.00	\$1,966,293.93	\$0.00	\$1,537,783.30
65	\$0.00	\$2,172,190.60	\$0.00	\$1,698,809.31
Total invested	\$35,000.00		\$33,600.00	

[Worksheet](#)

TIP: DON'T SAY NO TO FREE MONEY & NO MATTER HOW LONG OR SHORT YOUR CAREER IS WITH THE AIR FORCE. AT LEAST YOU WILL HAVE SOMETHING WHEN YOU LEAVE!!!

TSP INFO

TSP savings tips by time

<https://bit.ly/3kJvIQ0>

BRS vs legacy

calculator <http://bit.ly/2OvMLJp>

TIP: LOGIN TO YOUR TSP AND MAKE SURE THAT YOU ARE NOT 100% INVESTED IN THE G FUND

ChooseFI Military Dollar interview

<https://www.choosefi.com/095-military-dollar>

Financial Mentor Doug Nordman interview

<https://financialmentor.com/podcast/004-early-retirement/10509>



PODCASTS

CREATE A BUDGET
STICK TO
YOUR BUDGET
PAY OFF DEBT
SAVE & INVEST



If at all possible, max out your TSP at the annual cap of \$19,500. You can also open an IRA account and max it out at \$6,000 per year. If you are married, even if your spouse is not working, she can also have an IRA account. Don't be surprised if by the time you retire from the military you have the financial independence to do whatever you want. You could retire for good or go do whatever job/activity that brings you joy.

Maxing Out

- As a Federal employee and military member, if you can afford to max out your savings/investments, the 2020 rules are:

- TSP at \$19,500/yr
- IRA at \$6,000/yr
- IF you are married, your spouse can also open his/her IRA even if s/he isn't employed. That's another \$6,000/yr
- IF you are deployed to a combat zone, you are also eligible to invest up to \$57,000/yr. There is an art in doing this, but this blog post: bit.ly/304DFau will explain the details. If you are unsure, do consult a professional before you deploy.

Without deployment, one family has an opportunity to invest \$31,500/yr. With a deployment, it can be up to \$69,000.

REACHING FI

To reach FI, you need to invest as much as you can afford. Reducing spending is always a good thing but if you need to make more money, there are a variety of opportunities that you can do, even from home.

Note: do follow the German rules regarding this. If it's required that you have a license, then get one. They're not expensive.

A few ideas:

- Teaching online
- Sell your craft
- Rent your home/AirBnB
- In the military, get promoted
- Customer service work
- Virtual assistant

Knowing When to Retire

- The 4% rule
- What this means is that based on research and in-depth write-up by the Mad Fientist: bit.ly/3hSbO3i, in order for you to retire, you need to have saved 25x of your annual expense.

Example, if \$60,000/yr is what you need to live on, then when your investment reaches \$1.5 million dollars, you are ready to retire.

- If you are on the traditional plan, if you will be receiving \$36,000/yr in retirement pay, and you need \$60,000/yr to live, you need to have at least \$600,000 in your investment account in order to retire.
- **Homework:** research Rule 72(t), safe withdrawal rate, possibility of failure rate and, play with these two websites to give you a good guesstimate on whether or not you will be ready to retire: cFIREsim www.cfiresim.com and FIREcalc www.firecalc.com

SCRA VS MLA

SERVICE MEMBERS CIVIL RELIEF ACT VS MILITARY LENDING ACT

Active duty and reservists who have been called-up for greater than 30-days. In some cases, also dependents.

WHO

Active duty members of the military and their dependents.

For debt accrued before joining, maybe from a high-interest credit card.

WHEN

For accounts opened after joining.

Interest in excess of 6% can be forgiven, caps fees to 6%, allows termination of a lease due to enlisting, PCSing, or deploying.

BENEFITS

Limits interest rates and fees to 36% Military Annual Percentage Rate. The aim is to protect military members and their families from predatory lending practices.

Credit card debt, mortgage payment, pending trials, termination of lease, collection activity

COVERAGE

Payday loans, vehicle title loans, refund anticipation loans, deposit advance loans, installment loans, unsecure open-end lines of credit, credit cards.

**DETAILS
ON
SCRA &
MLA**

SCRA: bit.ly/3cnxVxw
MLA: bit.ly/3cul8cv
SCRA vs MLA: bit.ly/2M5itfy

REFERENCE AND RESOURCES

HANDY TOOLS

- MyPay allotment service: **pay yourself first**
- Mint bill tracker: www.mint.com
- GoodBudget envelope budget app: www.goodbudget.com
- Every Dollar budget app: www.everydollar.com
- Personal Capital investment tracker: www.personalcapital.com
- YNAB: www.youneedabudget.com

CALCULATORS

- MLA open-end (credit card) <http://bit.ly/2J2zgLA>
- MLA closed-end <http://bit.ly/2P1h4HD>
- Personal Capital <http://bit.ly/2RWrtJl>
- Smart Asset <http://www.smartasset.com/retirement>
- Flexible Retirement <https://www.flexibleretirementplanner.com>
- Financial Mentor <https://financialmentor.com/calculator>

BUDGETING

The Balance <https://www.thebalance.com/budgeting-4074043>

FI READING & PODCASTS

- The Military Guide: <https://the-military-guide.com>
- Military Dollar: <https://militarydollar.com>
- The Simple Path to Wealth: <http://jllcollinsnh.com/stock-series>
- The Science of Financial Independence: <https://www.madfientist.com>
- ChooseFI: <https://www.choosefi.com>
- Podcasts: <https://bit.ly/363JetE>

BOOKS

- **The Simple Path to Wealth**, JL Collins (not available at the library)
- **Rich Dad, Poor Dad**, Robert Kiyosaki
- **Get a Financial Life**, Beth Kobliner
- **The Millionaire Next Door**, Thomas Stanleyco
- **Your Money or Your Life**, Vicki Robin
- **The Automatic Millionaire**, David Bach
- **The Bogleheads Guide to Investing**, John Bogle
- **Coffee House Investor**, Bill Schultheis