

The Audi Generation: How Expectations will Ruin Retirement for Boomers

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the audi generation



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Isn't life good? I make \$250,000/year.

As a white collar professional in North America you and your partner may be earning \$150,000 to \$500,000 a year and never know what it feels like to have to budget money.

You have money for one or two out of county vacations a year, likely had a nanny for the kids longer than you really needed to, think nothing about updating to the latest tech gadgets (e.g. iPhone) for not only you but all the kids as well. You pay people to cut your grass, shovel your snow and clean your house. You are the organic food buyer at Whole Foods, belong to at least one "club" with high annual dues and of course you are the driver of an Audi, BMW, Land Rover or Lexus.

With your bank account always full of pay cheque money, there is absolutely no need to pause and reflect on spending. As I said, life is good. As you roll through your 40's and 50's with your career advancing and you spending away, there is rarely a pause to reflect on the distant future. After all, as long as you keep working then the money keeps rolling in and you can keep spending right?

I view the car you drive as the perfect example of this lifestyle and your attitude towards it. Let's be honest: no one really needs to spend \$80,000 on an Audi or a BMW today. Oh, sorry, you don't but it, you lease it – even worse. Nothing like leasing and spending one third more on a vehicle that you needed to! There are lower cost vehicles that also have heated seats. But you lease luxury vehicles because you can – the money is there, your friends do it and you like to look good too. You go girl!

As a financial planner for professionals, executives and business owners, I live in this world and try hard to help people achieve their financial goals. There are a lot of people loving this lifestyle without a care in the world since their bank account is never empty. "Who needs a plan Kurt?" You go guy! It's great to be a high income professional in 2017! I find these folks today like to plan their lives at most a few years out – perhaps the next big vacation – but where it gets interesting is when you ask about how they will live in fifteen or perhaps thirty years....

Here's the Problem

Long term goals still exist for all of us. And the problem is that boomers have zero focus on what they will cost in the

future and even less of a commitment to save what it takes.

Couples have expectations that the Audi lifestyle, the clubs and vacations will continue to age eighty. The average boomer is heading towards a massive wall of disappointment when they find at 60, 65 or 70 that there is nowhere near the money in place to fund the lifestyle that has become their (or their spouse's) expectation over the last thirty years.

“But Kurt, I have a financial planner like you helping me to figure this out! I won't end up this way”. No you don't. You don't even know what your 2016 investment portfolio performance was or whether it was better than the S&P500. You don't know what fees you pay, you don't know the level of risk you take and you only hear from your salesperson when they want more money. . Let's face facts – you don't even know what their education is or what it means. Many of them don't even ask you what your goals are – that should be your first indication that you should head for the door. But you don't: you are intimidated, you are busy, they are your friend, surely they know what they are doing. Ha Ha. Get a grip.

Our Goals are the Same as our Parents – Sort of.

We still want to help our kids get through university and pay for their wedding.

We still want to be mortgage free before we retire – despite the banks trying hard to make sure we are in debt for life. And we still want to slow down after age 60 – but I don't call it “retirement” any more. It doesn't have the same meaning today.

Let's look at our parents (or grandparents) as much of our thinking and expectations are grounded in how we grew up.

- Dad worked in the same job for thirty years. He had a defined benefit pension where he knew exactly how much money they would have in retirement each year. I don't recall my parents ever talking about saving for retirement when I grew up because the company took care of them (through the pension). They didn't need to plan.
- When they retired they lived on 30% less because the pension was smaller than their pay cheques. And they did this easily and happily. They may not have traveled to Europe ever, drove the same Chevy for ten years and only had twenty cable channels, but they were happy.
- They were mortgage free by age 50.
- Lines of credit didn't exist.
- They paid cash for your tuition – along with your summer job money. And they chipped in with your wedding costs and your first time home purchase.

Now let's look at you and how massively different it could be – yet you have the same expectations.

- At age 50 today you may be earning ten times more than your father was thirty years ago. This should be easier right? Read on.
- You have a massive mortgage that you hope to have paid off by age 60, not 50. The lower the interest rates went, the more debt you borrowed to upsize, renovate, renovate again, etc. If interest rates go up in the next ten years all bets are off on age 60 as your debt free date. You could have debt for life. The biggest favour you could do yourself is to follow your folks on this one – no debt at all after age 50. Trust me.
- You have no pension. No generation has ever been so alone in saving for retirement – without a pension you need to save gobs of money to match the same level of spending and you are not doing it. To make matters worse you've

had three jobs since university and haven't yet worked anywhere long enough to even qualify for their stock plan. This will really hit you in the face when you are the highest paid executive on your floor at age 50 and HR terminates you as too expensive. Losing your job at the peak of your career – the peak of your earnings and suddenly your \$300,000 a year is gone. The spending machine needs to go on pause for a while until you find another job – but can you earn at this level ever again?

- Your three kids could mean fifteen years straight of post-secondary education costs for you. The registered savings plan you opened when they were born will run out of money before year three. Your kid's job at Starbucks covers their cell phone bill (oh, sorry, you pay that too!). So, the shortage of school money will come out of your pocket – this will likely happen around age 55 for you – the same age you should be trying to put the finishing touches on your retirement savings. But, because you love your kids you will sacrifice your own retirement, likely defer it, to get the kids finished off. Perhaps you should have read my newsletter fifteen years ago about how many kids to have as well.
- You will still contribute to your children's weddings like your parents did to yours, but the big hit could be how much you need to contribute now to help them own a home in a big city in North America. Got a spare \$100,000 per child to give them? Or what, are you going to let them raise your grandson in heaven forbid, a condo? This relatively new issue, the high cost of home ownership, is a game changer in changing historical cultural expectations for North Americans.
- While your folks or grandparents accepted that retirement will mean living off less, you aren't prepared to do this. After all, you are a boomer: you are the highest income earning generation in history. You like your Audi, your expensive red wine, your river boat cruises down the Danube at \$10,000 a pop and your housekeeper. Like hell you will cut back just because you reach a so-called retirement age.

The Wake Up Call

Somewhere around age 50 you may wake up one Sunday morning, look at each other and realize time is passing. The first child going to university this fall at \$25,000/year. You still have a large mortgage when your parents didn't at this age. And Tom and Sue next door are retiring this year – honey, where are we at with that? Bang, bang, bang, life's three major financial goals hit you between the eyes all at once. We need to find out whether we are ok. We need a plan.

And so you end up at my door. As we sit down in our first complimentary meeting I spot your Audi key fob on the table. You agree to let me look at your finances – the first time someone has ever done this for you – and likely ten years too late.

For \$2,500+, I x-ray, analyze, forecast and make recommendations on your retirement, your insurance, your children's savings, your estate plan, your real estate, your taxes, your investment portfolio, your debt and more. We tie all aspects of your financial plan to your goals – and I answer all the key questions about where you are at, what you have, where you are going and if you will be ok over the course of three meetings in a month.

In the end I tell you that you will be debt free, you will pay for the kids school needs but you will likely not retire before age 70 and that's assuming someone will want to keep you and your big salary that long. I tell you that you will need \$3 million in savings to fund the same lifestyle you have today – we both know you want the same lifestyle at 70 as you have today – so let's not pussy foot around. And I sure as heck know you are not downsizing the big home and moving to a cheap home in the country to unlock your most valuable asset. Downsizing real estate is a farce. And God help you if you ever buy a condo – talk about a disaster on the horizon.

And the couple walks out of my office knowing they could get to \$3 million in savings for retirement but likely won't – they'd have to cut back the fun stuff too much today. They are more likely to invest in marijuana penny stocks tomorrow looking for a ten bagger stock than they are to save 20% of their pay cheques and have a common sense

financial plan that reflects their goals and resources. The biggest issue is attitude folks – no one cares about the distant future goals as long as the pay cheque rolls in today.

So, much like a doctor's checkup where the doc tells you to lose twenty pounds by getting to the gym and giving up desserts, you aren't going to listen to me either. So life continues, and with that big pay cheque, it's time for a new Audi again. The \$2,500 worth of advice and my final report is stuck in a drawer at home, never to be seen again. "What does Kurt know – I'll find someone that tells me what I want to hear" – and we all know there are lots of those salespeople in the investment industry in North America! Back to the stock broker who manages your RRSP or 401k and who you never see, never talks about goals and who promises 15% a year and all will be well. And so life continues for the 40, 50, and 60 year old executive in North America. Good times!

Oh, one final tip as you head to the Audi dealership and resume life as status quo: remember, don't lose your job, don't get divorced, don't have a health issue, don't have a car accident, don't get sued, don't get tired of your commute and your boss. Then, perhaps you will find a way to work to age 70, keep that big income intact for the big lifestyle you demand and all will be as well as it is today.

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