Summary Of Key Points From Interview With Justin McCurry RootOfGood.com

Justin McCurry, the financially independent writer behind the personal finance blog RootofGood.com was recently interviewed about his decision to retire at 33 after only 10 years of employment, his early retirement plan, his asset allocation, investment strategies, and low income tax payments.

What is financial independence?

- Being able to support yourself and your living expenses using a passive income stream, whether it's a real estate business, an investment portfolio, or stock bonds.
- The state of having sufficient personal wealth to live, without having to work actively for basic necessities. For financially independent people, their assets generate income that is greater than their expenses.
- The goal is to get to the point where all of your investments generate enough income to be able to support yourself indefinitely.

How did he do it?

- Justin graduated college and graduate school with little debt. He showed good financial discipline early in life.
- He invested any extra money he had and did the same with his wife's income.
- They developed a financial plan that allowed them to live on a portion of their income and invested the rest of their savings into their 401ks, IRAs, and regular brokerage accounts that gave them a solid average return of 7% annually.

Steps to Reaching Financial Independence

Step 1: Make wise financial decisions.

- Be smart about student loan debt. Starting a post-college career with little to no debt is a clean slate to work with.
- Investigate passive income resources. Real estate, businesses that run themselves, and an investment portfolio of stocks and bonds are

all good places to start.

- Reduce spending and living expenses. Get creative with your money and the resources available to you. Just because you want to save doesn't mean you can't take your family on vacation. Collect and use air miles instead of paying for flights outright, or use AirBnB instead of booking expensive hotels.

Step 2: Invest early and as much as possible.

- Save "extra" money. Whether in stocks, bonds, mutual funds, IRAs, or a 401k, investing and saving as much as possible can go a long way.
- Consider the cost of your investments. Instead of paying 1-2% of your assets each year to a financial advisor, understand how the market works and handle your investments yourself.
- Invest wisely. Earning 1% interest with your bank's savings account doesn't do you much good. Justin recommends looking at ETFs, or exchange traded funds, which can achieve a 7-9% return. Like a mutual fund, an ETF can hold hundreds or sometimes thousands of individual stocks and bonds, which helps spread out your risk. ETFs have a lower cost (expense ratio) than mutual funds, and are looked after by fund experts who only charge an average of .013 – .5%.
- Utilize asset allocation strategies. Though not recommended for beginner investors, implementing an investment strategy that balances risks and rewards by adjusting the percentage of your assets in an investment portfolio according to your risks tolerance, goals, and time frame, can help you safely grow your investments while reducing risks.

Step 3: Determine your magic number.

- For those investing in the stock market and bonds, the magic number the target number you need to have in your investment portfolio so it will be large enough to support your living expenses indefinitely.
- Figure out the amount of money you can withdraw each year in order to safely live off your investments for the duration of your retirement. Generally, 4% is a safe withdrawal rate, but some prefer 3% to make their investments last longer.
- To figure out your magic number, take your annual expenses and multiply it by either 25 (4%) or 30 (3%), depending on the length of your planned retirement.
- For example:

- If you need $40,000 a year to cover your annual expenses and want your investments to last 30 years: 40,000 x 25 = $1,000,000
- If you need $80,000 a year to cover annual expenses and want your investments to last 30 years: 80,000 x 25 = $2,000,000
- If you plan to retire early like Justin, need $40,000 a year to cover your annual expenses, and want your investments to last 50 years: 40,000 x 30 = $1,200,000

Step 4: Identify your savings rate.

- Your savings rate is the most important contributing factor to the speed at which you'll reach your magic number and is determined by how much money you take home every year as well as your annual expenses.
- If you're making $80,000 a year (after taxes), and your annual expenses are $40,000 then you're saving $40,000 or 50% of your take home pay. At a savings rate of 50%, it would take you 17 years to reach your magic number ($1,000,000).
- If your take home pay is $150,000 a year, and your annual expenses are $90,000, you're saving $60,000 a year, which is a savings rate of 40%.

Step 5: Take home as much of your income as possible.

- In one year Justin managed to reduce his taxes to just $150 on a combined income of $150,000 by taking advantage of all available tax deferred savings options and having children (dependents).
- Some of the tax strategies Justin used included maxing out his and his wife's retirement plan contributions (401k, 457), pension contributions, employee stock purchase plans, employee stock ownership plans, health saving insurance (HSA), dental insurance, and IRAs.

<u>Resources</u>

- Retirement Calculator: http://www.firecalc.com/
- Asset Allocation Tool: https://personal.vanguard.com/us/FundsInvQuestionnaire