I Have an Emergency Fund and Save for Retirement. What Should I Do Next?

Once you've paid off your debt, established an emergency fund, and started investing for retirement, you've got your financial fundamentals in place—but is it enough to afford the future you want for yourself? And if not, what should you do next? This week, Stefanie interviews certified financial planner Douglas Boneparth about how to prioritize your savings and investments and what to consider after you've maxed out your retirement accounts.

[MUSIC IN]

"Ashley": I don't know which brokerage account; I don't know what structure. It's anxiety provoking. And I think that might create like a panic as well, because I can't conceptualize it. I can't say "I'm gonna have enough."

Stefanie O'Connell Rodriguez: This is Money Confidential, a podcast from Real Simple about our money stories, struggles and secrets. I'm your host, Stefanie O'Connell Rodriguez, and this week we're talking to a 36-year old listener from the East Coast who we're calling Ashley, not her real name.

"Ashley": My husband is always very intimidated or impressed, I don't know, about the spreadsheet that I keep about my finances and our finances. My spreadsheet has nothing on my dad's spreadsheet. He has everything planned out till he's 100. I feel like he's in some ways a goal, but also my personal relationship with money is very different because I started in a field where I made no money.

Stefanie O'Connell Rodriguez: Ashley started her career in education. And between going to graduate school in New York City, then moving to New Jersey, both notoriously high cost of living areas, and working in a notoriously low-paying field, Ashley knew she wasn't going to be able to make the spreadsheets she'd seen her dad master so effectively work for her.

"Ashley": My career struggle led me to move, because I couldn't afford the things that I wanted to afford. I was living in a really crappy apartment, I had roommates from Craigslist. I was working in student affairs, higher education. And though it was very fulfilling work—

Stefanie O'Connell Rodriguez: Mm-hmm.

“Ashley”: ... at times, we just did not get the value that other careers did.

Stefanie O'Connell Rodriguez: After moving and continuing to work in higher education for several more years, the numbers still just weren't adding up to afford the lifestyle and financial goals Ashley had imagined for herself. So she started considering jobs in other fields.

“Ashley”: I did some job searching on marketing, communications-type positions. And this one popped up. It just happened to be a really good fit.

Stefanie O'Connell Rodriguez: Not only that, but the new job also came with a much higher salary.

“Ashley”: It was a $30,000 pay raise. It was life-changing.

Stefanie O'Connell Rodriguez: What's it like the first time you get that first paycheck at this new salary?

“Ashley”: The first thing you wanna do is blow a bunch of money. And there were a couple of things that I had been waiting on because I just didn't have the funds. I remember like, the couch. And my friend, she didn't really understand like why the couch had so much importance. And then she's like, "Oh, it's not the couch, it's what the couch represents." Like I was sitting on a $100 Craigslist couch that was broken with a slipcover on it, and it was uncomfortable and ugly.

And I felt like the couch was almost my life. Like it's broken and it's ugly and I make no money, and I work overtime and no one pays me for it. And then all of a sudden, I had the ability to walk into a furniture store and buy an $800 couch. I'd been waiting so long to like start the next phase of my life. I've been waiting so long to hopefully save for a down payment on a house. I've been waiting to take trips.

So I think it was kind of a gradual transition. But I will say that I think the smartest thing that I did, and I continue to do, and my husband does is, that when we get a raise, we don't go blow it. It makes sense for me to like treat myself with a little 10% more pay bump and put the rest away. And I'm really lucky that my husband and I are similarly minded in that when we have enough, we have enough.

Stefanie O'Connell Rodriguez: Can you tell me a little bit about your spreadsheet?

“Ashley”: I started my spreadsheet in October of 2014. I had $6,000 total and I owned my car. So I was turning 30 and I had some money goals, I had some career goals, I had some life goals. I wanted to travel again. I just wanted to get out of where I was. I know that if I can look ahead and I can know what's coming, my chances of actually making that happen, if I know that six months from now I'll have X, then that's easier for me to do.

Stefanie O'Connell Rodriguez: So, you set up the spreadsheet—

“Ashley”: Mm-hmm.

Stefanie O'Connell Rodriguez:... you put in your $6,000 and what, what else is on there?

“Ashley”: It is kind of an interesting tracker of what was happening in my life. So we have the car and then when I got my new job, I finally was able to get a preferred savings account. And when I got the preferred savings account, I put a percentage of every paycheck into that, and I didn't touch it. And that was huge. That, I think, made all the difference in the world when I started that. And then along the way I met my husband and we got accounts. So like those accounts are now there that weren't there before. And then added in my retirement accounts, which need some help, but we're trying. I'm a nerd [laughs].

Stefanie O'Connell Rodriguez: Please, I have spreadsheets too. We all have our own way of tracking these things, You clearly have a system that works. Though I did notice how you really brushed over that retirement savings.

“Ashley”: I know.

Stefanie O'Connell Rodriguez: Tell me about that.

“Ashley”: Well, I did the thing that everybody should do, but I didn't realize how important it was at the time, which was, you put in the minimum to get the match.

Stefanie O'Connell Rodriguez: Just to clarify what Ashley is referencing here. When she talks about putting in the minimum to get the match, Ashley is talking about a 401(k) or 403(b) or comparable employer-sponsored retirement plan where employees can have a percentage of each of paycheck paid directly into these tax-advantaged investment accounts, and some employers will match part or all of those contributions up to a certain percentage. If you work at a company that offers a match, it's essentially a part of your compensation package, though sometimes referred to as “free money”, but you don't get it if you don't max it out, which is why, when it comes to personal finance, there’s a lot of of talk about how important it is to get your full match if you have access to one.

“Ashley”: The job that I had, I think it was you put in 5%, they match 6%. When I was young and I made “zero” dollars, it felt like “zero” dollars. When I left and I got a statement, because I got that match that was pretty shocking. I think I called my dad, I'm like, "I have $36,000 in my retirement." In retrospect I'm like, “I should've been doing so much more." But I didn't have the funds to do it. Doing it was impossible.

Stefanie O'Connell Rodriguez: How has that evolved over time?

“Ashley”: If I vest in the retirement at my new job, I will have a pension. Who gets a pension? So I feel very fortunate in that way. But because I was working toward the pension, and because I needed the couch and I needed the car, there were some things that I put off for years and years. I wasn't really putting any extra into retirement. When I met my financial adviser, that's when I started putting into a Roth IRA in addition to my pension. So now I'm maxing out my Roth IRA which is great, and working towards a pension, but that is contingent on me staying at this job because, you know, the pension correlates to the amount of time you have there.

Stefanie O'Connell Rodriguez: So you're maxing out this account and you're like, "Okay, now what?"

“Ashley”: Yeah, we live below our means and we have a home we love, and it's a modest home, but we love it. We don't skimp on things. I think if anything, we skimp on our living situation, and that's not even a skimp. Like we just have what we need. So even though it would be really nice to have a kitchen island, like do I wanna pay a higher mortgage to have a kitchen island? Like not really. So we just don't know what's next. I don't know what else we should be doing in this time. We do have a little extra, we've saved for a few things, so we have that money kind of squirreled away.

We have an emergency fund. And then we're maxing out our Roth IRAs. And I just don't know what else we're supposed to do. Another consideration which might be different for me is that my husband is almost eight years older than I am. Do I really want him to be retired for eight years before I'm able to do the things that he wants to do in retirement?

Stefanie O'Connell Rodriguez: What are those things?

“Ashley”: I don't know exactly what retirement looks like. I think that that's one of the things that's kind of gray right now, but I'd rather have us have the funds to do whatever we wanna do in retirement, than to have us retire and to look around and say, "Well, I wish I would've saved another $100 a month. I wish I would've opened an investment account in addition too.” Like what do I do now to make sure that we can do whatever we want to later?

Stefanie O'Connell Rodriguez: As you have thought about creating your financial plans, have you projected what your current retirement savings plan will afford you?

“Ashley”: I have made a spreadsheet [laughs] of our pensions. So I do know what that piece looks like. I don't necessarily know what our Roth IRAs are gonna look like and what that's gonna afford us the ability to do. I don't really know about other investment strategies. It just feels like you don't even know what you're doing, and then hopefully at some point you have that aha moment and you realize, "Oh, like I'm gonna live off of this and I actually have enough." Actually having enough just feels so far away. And I think that might create a panic as well, because I can't conceptualize it.

It's like skipping to the end of the book [laughs]. I wanna be able to skip to the end of the book and read the ending and know how it works out [laughs]. And I feel like even if I am financially savvy, like there are so many people out there who are more financially savvy. There's still an imposter syndrome of like, I'm always playing catch up. To what? I don't know, but I'm not there yet. And I struggle with where I came from before. And thinking what if? What if they get rid of everybody with my kind of position? What if they do that and then I'm stuck again?

Stefanie O'Connell Rodriguez: Does that make you feel like you need to save more money instead of invest more money?

“Ashley”: Maybe. Investing is scary. Even though I'm doing the Roth IRA, like beyond that, investing is scary. I do think that knowledge of like, this might some day go away, does probably make me save more and does probably keep me from investing as much. Things are not guaranteed and I've never operated as though they are.

When I was in 9th grade, my grandparents were killed in a car accident. It was a long time ago, but it sticks with you. That probably is honestly why I think I wanna retire closer to when my husband retires, because we don't know. Hopefully, we both have long, long, long lives together, but how mad would I be at myself if I didn't retire and then something happens and we don't ever get that time?

Stefanie O'Connell Rodriguez: Mm-hmm (affirmative). If you set your retirement age at the same time that your husband's gonna retire, that's pretty soon.

"Ashley": I know [laughs]. It's like 20 years from now.

Stefanie O'Connell Rodriguez: Obviously you need money there for savings, but how much do I actually need in savings? And playing with the retirement calculator. How much do I need to be investing on a regular basis to have this much money? Especially if I'm gonna retire early. Getting a concrete number, even if it changes, just a number to get you on a plan.

[MUSIC IN]

"Ashley": Yeah. You're absolutely right. And that's what I need to hear [laughs]. So then the anxiety comes in too like, "Well, then what do I do with it?" There are a lot of options, and though a lot of options can be an opportunity, like it can also create fear: Well, what's the right option? If I have all these options, what's right? What's wrong? What's best?

Stefanie O'Connell Rodriguez: After the break, we'll talk through those investing options. What's right? What's best? And when should you consider which, with Certified Financial Planner and co-author of The Millennial Money Fix, Douglas Boneparth.

[MUSIC OUT]

Stefanie O'Connell Rodriguez: Douglas Boneparth moved to New York City in October 2008.

Douglas Boneparth: Couldn't be more prime of showing up to work in finance while the financial system's literally melting down. Like, Lehman collapses the day I arrive.

Stefanie O'Connell Rodriguez: Douglas went on to become a Certified Financial Planner and the founder and president of Bona Fide Wealth, a wealth management firm in Manhattan.

Douglas Boneparth: We've built ourselves up from that really rough time in 2008 and '09, got into recovery. And my wife and I still had every motivation to do some of these classic big goals, whether it was starting a family, getting married, buying a house. And we're coming into the game with a delay. And on top of that, $300,000-plus in student loan debt. That's what two graduate degrees in New York City will get you. And here we are 13 years later, finally, with the kids, with a house, with student loans refinanced and under control. And you can see how you're getting out of that. We worked really, really, really hard to make all of that happen, and now, what do we do?

Stefanie O'Connell Rodriguez: There's a certain kind of question I've been hearing a lot: I actually have some money that I can make decisions with.

Douglas Boneparth: Mm-hmm.

Stefanie O'Connell Rodriguez: And that almost becomes more paralyzing and overwhelming than what was before, because at least it was clear what to do before with the money. Do you see that?

Douglas Boneparth: 100%.

Stefanie O'Connell Rodriguez: Douglas, like Ashley and other listeners we've heard from, is fully aware of how lucky they are to be in a position of having their debts under control, their savings in place and some investment accounts funded. Particularly as members of a generation that graduated into the Great Recession with record student loan debt and soaring living costs, and now approaching middle age in a time of record-high housing and childcare costs. But even with their relative financial stability, there's the looming question of, well, am I doing enough? And if not, what should I be doing next?

Douglas Boneparth: Now you're presented with choices of how to invest your money and what to do with surplus cash flow. And okay, maybe you can max out your retirement plan this year. Maybe you can do that and fund the kids' college plans. Maybe you can do both of those things and save extra for retirement, or a vacation property, or other kinds of assets. And I think that's where people kind of get caught up. And it's your life and you're only getting one crack at this. Try your best to keep your eye on the prize and ask the even headier question of, what is that you really want for yourself?

Stefanie O'Connell Rodriguez: So let's backtrack a little to some fundamentals. Because sometimes I do think if somebody's in a position where their debt pay-off plan is on track, it almost feels like a false sense of security, because that isn't hanging over the head. But there isn't necessarily anything beyond a savings account in place.

Douglas Boneparth: Yeah, so I always like to establish the pecking order of how your savings and investing should go. And the first thing is making sure you understand what the goals are, and the things you want to achieve for yourself, and the time in which you want to achieve them. And then, which of those things are most important to you?

So identify. What are they? Quantify by time and value. When do you want it? How much is it going to cost? I want to buy a house in four years. I need $50,000. So now you know how much you need to save each month. And then, prioritization, the third step, which is, of the goals you have for yourself, which ones or which one is the most important to you? Because sometimes you can't get to all of them in the time in which you would like. And you're going to have to make critical decisions or sacrifices. Maybe one of those, goal B, needs to be pushed out two years, so you can get to goal A within the time that you want, because that's the most important goal. And it also sets you up to adjust as things change.

Stefanie O'Connell Rodriguez: Hmm.

Douglas Boneparth: You get a bonus, incomes go up, you can now shuffle the deck and recalibrate this system very easily. And you can change your mind. Maybe goal B is now A and C is now just nonexistent. That's normal. But now, you have a system there for goals. The next thing is mastering cash flow. So this is being intimate with how money comes in and out of your life. Two sides of the same coin: cash flow, what's actually happening with your money, and budget, what you hope will happen.

Stefanie O'Connell Rodriguez: Right.

Douglas Boneparth: And you use cash flow to reconcile your budget. This is the meat and potatoes.

Stefanie O'Connell Rodriguez: Mm-hmm (affirmative).

Douglas Boneparth: It's easy to say these things, it's another thing to do them. Each and every day you're making a decision—whether it's should I go out to dinner, go on vacation, or do something else? These decisions can happen fast. And not everyone takes a second or has the intuition to know, "I'm about to make financial decision X. It is going to have the impact of one, two, and three on my financial life." That's how you should be thinking. But it should be in a way that's almost innate.

Stefanie O'Connell Rodriguez: Mm-hmm.

Douglas Boneparth: It's automatic because you're aware, and more importantly, in control. That's the word I'm looking for here. So we have our system for goals. We have mastering cash flow, money in, money out. And then, I want to address all the short-term stuff. So, this is the building of the cash reserve. This is making sure you can service your debt, long-term debt, like your student loans, your mortgage, or your car payment, the things you got to pay each month. And then you have your short-term goals. Not just accumulating cash for a reserve and being able to meet your liabilities, or accelerate those liabilities if their interest rate is high, you know, five-plus percent is debt you want to maybe focus on a little bit more.

Now you talk about goals that are four years or less away. My take is, no risk on that. I don't think the reward is worth the pain that would come from not being able to do that goal because you took risk, right? So, "I'm just going to put my money in the S&P 500," right? 500 largest US stocks. But you need time to do that. Well, what happens if you're a few months out to that down payment, and there's a correction of 15%, 20%, and now you can't make it. You're going to say, "Oh, I was just investing in the..." Yeah, you put [laughs] your money in the market. You know that event easily could happen and it did, and now you can't buy your home. That sucks. So, that's why I usually take a risk-free stance on that. I even find myself sometimes, falling into the trap of why is that cash just sitting there? It needs to be invested. There's inflation, and rising rates, and a market that's going to struggle to adapt to that.

Stefanie O'Connell Rodriguez: So Douglas and I are speaking in spring 2022, where the Consumer Price Index as of April shows the 12-month inflation rate at 8.3% as the global supply chain continues to be disrupted by factors like the pandemic and crises abroad that are likely to keep prices relatively high in the immediate future, well above the informal target of 2% inflation. Which means that our dollars tomorrow will likely buy us less than they do today. Which can make holding cash in savings feel like a missed opportunity. After all, if inflation is above 8% and your savings account only offers 1%, your money is losing value over time. That said, there's an important role savings plays in your financial life. Not just for emergencies, but also for short-term goals, like those less than 5 years away. As Douglas put it, that's money you likely don't want to put risk on by investing, because unlike long-term investments, you may not have the luxury of time to weather the short-term ups and downs of the market.

Douglas Boneparth: When I say savings, it means saving cash.

Stefanie O'Connell Rodriguez: Yeah.

Douglas Boneparth: When people say investing, that means putting risk on your money to get a return, accumulating assets. So now, you're in a position to put risk on your money, knowing that you have the confidence to stick with it, because you've addressed all the foundational stuff. Get the foundational pieces set first. Because, the whole point of investing is to stay invested. And if something pops up to where you have to go cover an emergency or go do that other thing, as opposed to have the cash reserve, or maybe worse you need to go borrow, and take on debt, you're working backwards. And I'd rather go into investing on the most solid ground possible because I think it will pay off in the long run.

So finally, we've earned the right to invest. And now we want to know the order. I like to go for anything that saves me money on taxes first. So, I'll generally target retirement plans. If you have an employer-sponsored retirement plan and are under the age of 50, you're going to get to put up to $20,500 of deferrals of your own paycheck into these plans. You'll also capture any matching contributions.

You can do Roth deferrals, or you could do pretax. So some folks have literally $26,500 of retirement savings or more. That money, it's going to save us money on taxes [laughs] today, in the current year or in future years, or both. That's a lot of money. If you've done all that, now you're gold star status. I literally use those words to clients. You've done all the foundational stuff. You've maxed out (laughs) all your retirement plans and you still got money to save. We try and automate that and get monthly investments going into—

Stefanie O'Connell Rodriguez: Hmm.

Douglas Boneparth:... taxable brokerage accounts, you could use a Robo, Betterment, Wealthfront. You could do it on your own, Fidelity, Vanguard, Schwab. You can hire financial advisors, because you're too busy and you just don't want to deal with it, and you like to marry your investment management with your planning. That's why I have a job. So, all of these are very acceptable ways to do it. And you've got to find the one that's going to get you in a rhythm of consistently investing. Then you can wrap that up into some retirement planning calculations and see if you're on track.

Stefanie O'Connell Rodriguez: You talk about keeping goals that are sub-five years in cash. What if it's seven years, 10 years?

Douglas Boneparth: Why do you know all the hard questions to ask? These are the intermediate-term goals. Here I think you need to pay attention to the risk that you're willing to take. And this is, I think, more of a question about risk tolerance—

Stefanie O'Connell Rodriguez: Hmm.

Douglas Boneparth:... than really anything else. It's okay not to know. And it's okay to earmark money to say, "This could be long-term. This could be something else. I just don't know." Look, right off the bat, it's hard to operate in the gray area. Like solving for these things isn't necessarily as clear cut as, "Cool, four years, $2,000 a month, I'll get the house." Or, "If I just put $20,000 away a year in my 401(k), I'll have some kind of decent retirement." I think the best way to approach this is, how would you feel if the $10,000 in your intermediate-term bucket went down $4,000, and you lost 40%? Would you crawl into a ball and hide? Would you throw up on yourself? Try and think about how you would feel and use that as your guide to either dial up or dial down the risk that you're taking here. You can look at what these average returns look like. You can look at what the worst loss, you know, from peak to trough is in that time. And say like, "Look I couldn't handle a 43% drawdown with my “I don't know” money. But I could do 20%. That wouldn't really bother me." So now you can start to slide yourself up and down the risk spectrum and figure out how you should be investing that money.

It's easier for people to be like, "Eh, I'm not going to touch this for 20 years," And savvy investors would be like, "Well, I'm not going to touch this for 20 years. The market just went down 30%. My portfolio just got wrecked. But this is one heck of a buying opportunity." You get really good at this, that's where your head's going to go. Not to, "Oh my God." You know, if you're panicking, you don't have control, I would say.

Stefanie O'Connell Rodriguez: What I'm hearing from a lot of people is, I'm doing it, but I can't wrap my brain around it.

Douglas Boneparth: So, if you were to reframe that, be like, "Listen, we need to buy as many assets as we can, so that we can do the things we want to do later on so we can survive off them when we're not working." They're going to replace the income that we're earning through our jobs. Those assets are what replaces that income, either by selling them or that those assets themselves produce income, like rental real estate property or dividend-paying stocks.

Great. Well, the first way we want to do that is the way that saves us the most money in taxes. Now what? Well, look, unfortunately, we've run out of opportunities to do this in the most tax-advantaged way, but we can still do the same game. It's just we're going to have to pay a little bit more in taxes as we grow our money." "O-o-okay, So, how do we do that?" Similar type of account. But we can also look to other things." Then you get the conversation going about, "Okay, hey, I'm pretty good at buying mutual funds like I do in my 401(k). I understand that. Let me tell you about ETFs. Let me tell you about stocks, bonds. Let me tell you about real estate. Let me show you all the ways that we can go about buying assets."
This is how these types of conversations should go to someone seeking out information so they can make good decisions. You have to be a really good self-starter if you're not hiring this out. And I would encourage anyone listening to go seek out this information, have these conversations with your friends who are good with money. Go find a professional if you don't want to talk to friends and family and you just want an objective voice.

Stefanie O'Connell Rodriguez: I want to take a minute here to talk about this listener. Because this listener has access to a pension. I'm wondering what your take is on how to plan for or how much to count on or not count on pensions.

Douglas Boneparth: Let's start with social security. This comes up a lot in practice. I will often cut social security in its current form by 50% and sometimes by 100% to show how much more you’d need to save, or what it would take to actually not run out of money, or have a successful retirement planning scenario without that particular piece there. I personally think social security will be around maybe not in its current form, which is why I like that 50%. I think that's pretty drastic of a cut, but 50% is a real good conservative take for young people planning.

And then as far as defined benefit plans go, or the classic term of a pension, where you're working at a company, you work there 30 years, here's your gold watch, you get your pension, and enjoy retirement. You get social security too. You're good. Shout out to all my New York state teacher clients who are making really good money each and every year. It's actually a beautiful thing.

But those are almost nonexistent for millennials and younger. Even when I get a client who's our age that's like, "Hey, look, they offer a pension," we all kind of chuckle. I would have anyone rely less on that or view it with a great deal of skepticism or be conservative about those assumptions, and rely more on what you can do in terms of your own savings and investments.

Stefanie O'Connell Rodriguez: Is it then that you just kind of approach retirement planning as though you don't have the pension?

Douglas Boneparth: Yeah. I mean, if it's not coming from guaranteed, "guaranteed" sources of income, you have to re-create that income yourself. And that can be anything from continuing [laughs] to work, you know, hybrid models. "Hey, I'm going to do, part-time." Hopefully, it's something you love. Or run a business, And couple that with whatever we are going to get from social security and whatever assets you've managed to accumulate. We have to think a little bit more dynamic than what our grandparents had, which was social security, a pension from working, being loyal at a place for 30-plus years. That's just not the way we're going to be playing the game.

Stefanie O'Connell Rodriguez: So her husband is eight years older. And so she's really anticipating this pretty big gap between their respective traditional retirement ages. And so, it then creates this question around if I can't access this money that I'm investing in an IRA, or a 401(k) until I'm 59 and half—

Douglas Boneparth: Hmm.

Stefanie O'Connell Rodriguez:... is there a way to invest for a retirement that starts sooner?

Douglas Boneparth: I mean, what a great position to be in, where you're working hard to have earlier retirement, that you got to be mindful of not putting too much money away in what we call tax-qualified plans that have you wait ‘til 59 and a half. A few things come to mind, number one, you got to get your timing right here. On one hand, unless you're going to be living a very meager lifestyle, I don't know if maxing out retirement plans, I don't know if that's going to get you to your financial independence goal. It means you would've had to accumulate assets also outside. Your savings rate is going to have to be superstar level. Split funds, meaning split up those contributions between retirement and between non-retirement accounts, so you don't run into that problem there.

I could also counter with, then focus on Roth dollars—

Stefanie O'Connell Rodriguez: Yeah.

Douglas Boneparth:... because you'll be able to get the principal out, before 59 -

Stefanie O'Connell Rodriguez: Yeah.

Douglas Boneparth:... and a half.

Stefanie O'Connell Rodriguez: There is this other piece that has come up many, many, times. And that is the permission to spend more money.

Douglas Boneparth: Yeah.

Stefanie O'Connell Rodriguez: When and how do you give yourself that permission?

Douglas Boneparth: Yeah, good planning makes this very easy. You go through proper retirement planning, taking into account all the variables that go in there, savings rate, inflation factors, rates of return, how long you're going to live, all of that, Forget all the jargon here, guys; this is just a fancy formula to find out the probability you won't run out of money during this period of financial independence that you've chosen.

I think when you know what it takes each month, each year, in terms of saving to get to the probability that makes you feel comfortable, I am for 70% to 90% probability you won't run out of money in any given scenario we're looking to solve. So for example, if it's like, hey, my goal is to get to retirement by 55. I can afford to all-in invest each month $5,000, $6,000. And you're doing that, and you're still running a $2,000 a month surplus in free cash, you have a choice. You know, the choice is, "Hey, I can retire a year early." Let's frame it in real-world terms.

Stefanie O'Connell Rodriguez: Mm-hmm.

Douglas Boneparth: So 55 can now be 54. I can maintain this extra income and this extra investment. Or, that's an extra $1,000 a month, $12,000 a year. You know, me and my significant other, we're going to Tokyo. (laughs) We're getting that extra vacation in. Or we want to join the country club. Or I want to go do that thing I've always wanted to do. And it's not at the cost of not getting to my goal on time.

Stefanie O'Connell Rodriguez: Do you think people have trouble making that transition?

[MUSIC IN]

Douglas Boneparth: Yeah. I think so much needs to take place, and you would've built up such a strong foundation and followed through on the additional things after building a foundation to put yourself in the position of objectively looking at that scenario and saying, "Okay, what am I now going to do?" These things sound easier than they are. And again, back to personal finance being personal, stay in your lane. What do you want? I'll bring this full circle. One life, one crack at it, so get it done.

Stefanie O'Connell Rodriguez: So how much do you really need to be investing to afford the future you want? It depends on the vision of the future you have for yourself. But before you get to that point, you can get started with the fundamental steps Douglas laid out—creating a system for your goals, mastering cash flow, earning the right to invest, maxing out your retirement plans and then getting into monthly recurring investments in whatever way aligns with your personal tolerance for risk. But as Douglas mentioned, that extra legwork to customize an investing strategy that works for you is totally worth it.

This has been Money Confidential from Real Simple. If you or someone you know needs money help from our experts, send us an email at money.confidential@realsimple.com. Or leave us a voice message at (929) 352-4106.

Be sure to follow Money Confidential on Apple Podcasts, Spotify or wherever you listen so you don’t miss an episode. And we’d love your feedback. If you could rate this podcast and leave us a review, we'd really appreciate it. You can also find us at realsimple.com/moneyconfidentialpodcast.