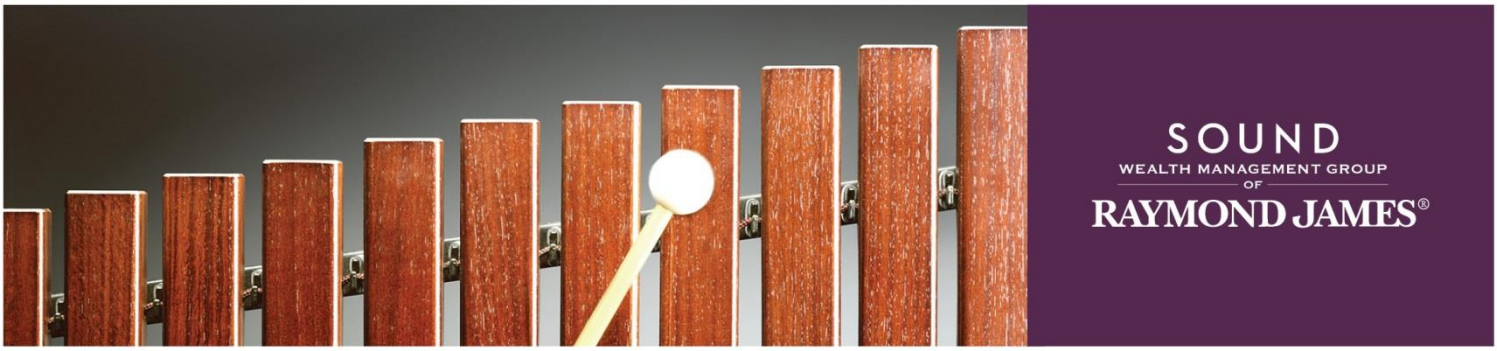


VICE PRESIDENTS IN A VICE

This SOUND Wealth Management Group (SWMG) article will highlight the contracting and expanding world of Corporate America; large companies continue to acquire competition, distribution, and intellectual property and then expel employee redundancy to substantiate their purchases - leaving many unsure of their financial future (if they even stop to think about it). Many Vice President and Director level executives find themselves in a vice, saying they need "a few more years" with the company until retirement, but much of the problem lies in the statement itself: "a few;" many do not even know when they can afford to retire. We at SOUND Wealth Management Group find many executives do not know where they stand with their finances and retirement. It is an unfortunate truth that many of these said executives do not even know where their retirement monies are held - let alone the name of their financial representative. It is likely that if you are a corporate executive, your 401(k) plan is housed at Fidelity, Principal, Voya, TIAA, or AON Hewitt in a position we call the "unwatched masses." You may take solace in knowing that you are not in a unique situation – your cohorts were thrust into a plan administrator such as Fidelity by your employer; (good or bad) you had no choice.

We are finding more executives taking an active stance against these forced decisions; precedent was established in the U.S. Supreme Court decision in Tibble v. Edison International, Inc., 135 S.Ct. 1823 (2015) forcing employer fiduciaries to have ongoing duties to monitor investments, fees and services. Just recently Starwood Hotels & Resorts Worldwide and Chevron employees have filed class-action lawsuits to compel more culpability on their employers when administering their 401(k) plans.

The many pushes and pulls need to be taken into account in order to "know where you stand" in reaching your financial goals. Do you have enough to sustain current, or a

decreased, lifestyle for over 20 years? What if plans change? Many have regarded being a millionaire as a standard for being financially liberated, but consideration of lifestyle and inflation makes $1MM less significant by the year. Inflation can be one of the most consequential (and often overlooked) factors in evaluating retirement lifestyle. An executive who saves $1MM over the next 40 years will have about $306,000 of purchasing power in today's dollars – probably not enough to support spending into their 80s or 90s. Further, we find many insinuating they will cut spending in retirement, yet many actually increase expenditures to replace working hours with (uncompensated) activities.

Management guru Michael Scott of Dunder Mifflin may have described this situation best (Figure 1).

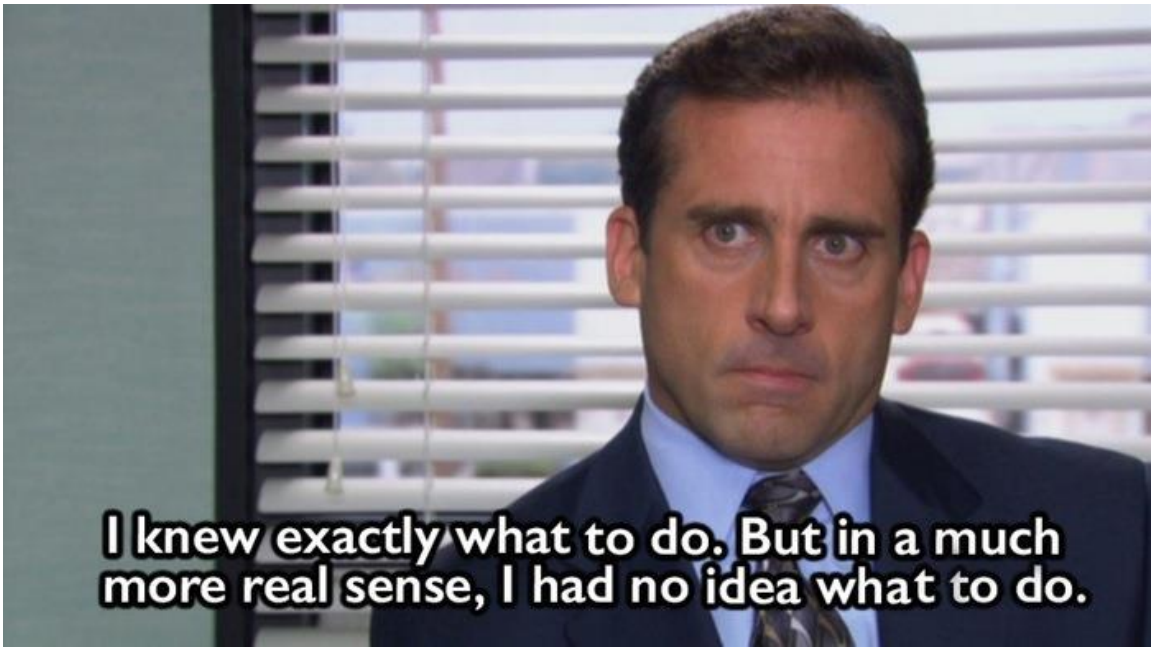


Figure 1

"Knowing where you stand" is not simply evaluating your finances today, but also considering what your future target goals are, and how life's trials, tribulations, and inflation may impact the results.

The good ole days of Corporate America are coming to an end. Few offer pension benefits (figure 2), they have squandered bonuses, and many have removed or drastically changed health coverage benefits. According to the Social Security Administration, a 60-year-old male has a life expectancy of +21.48 years (female is +24.46). The question for this report is: does your money have the same time horizon?

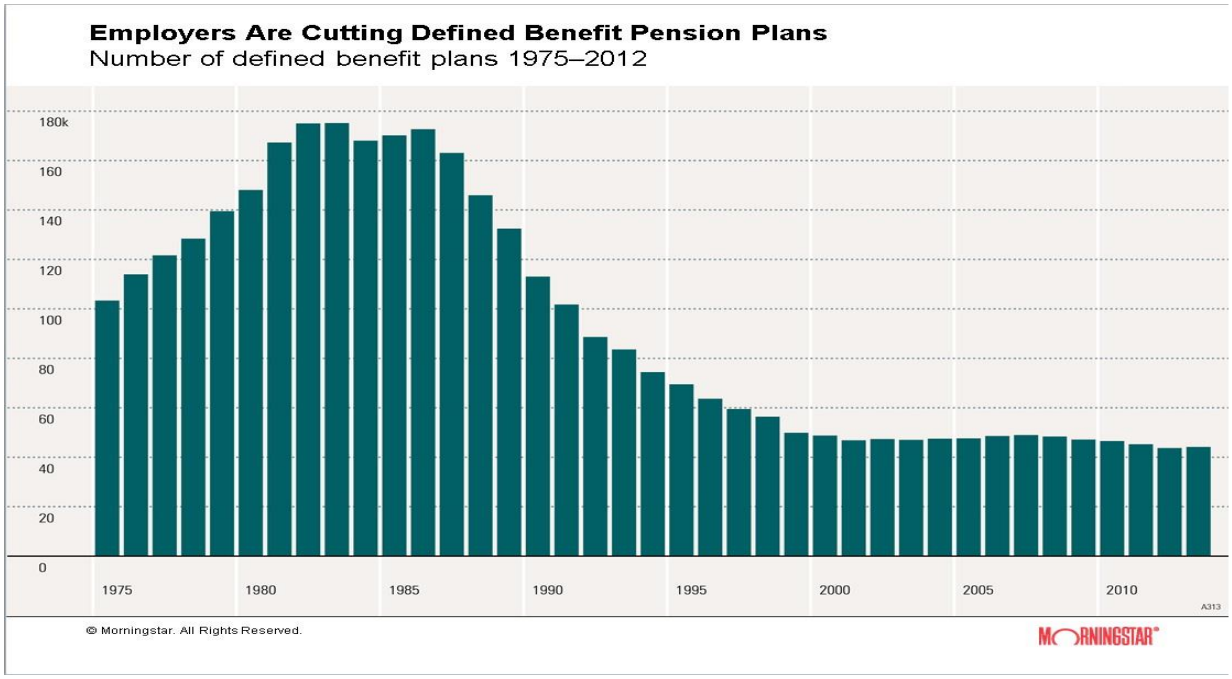
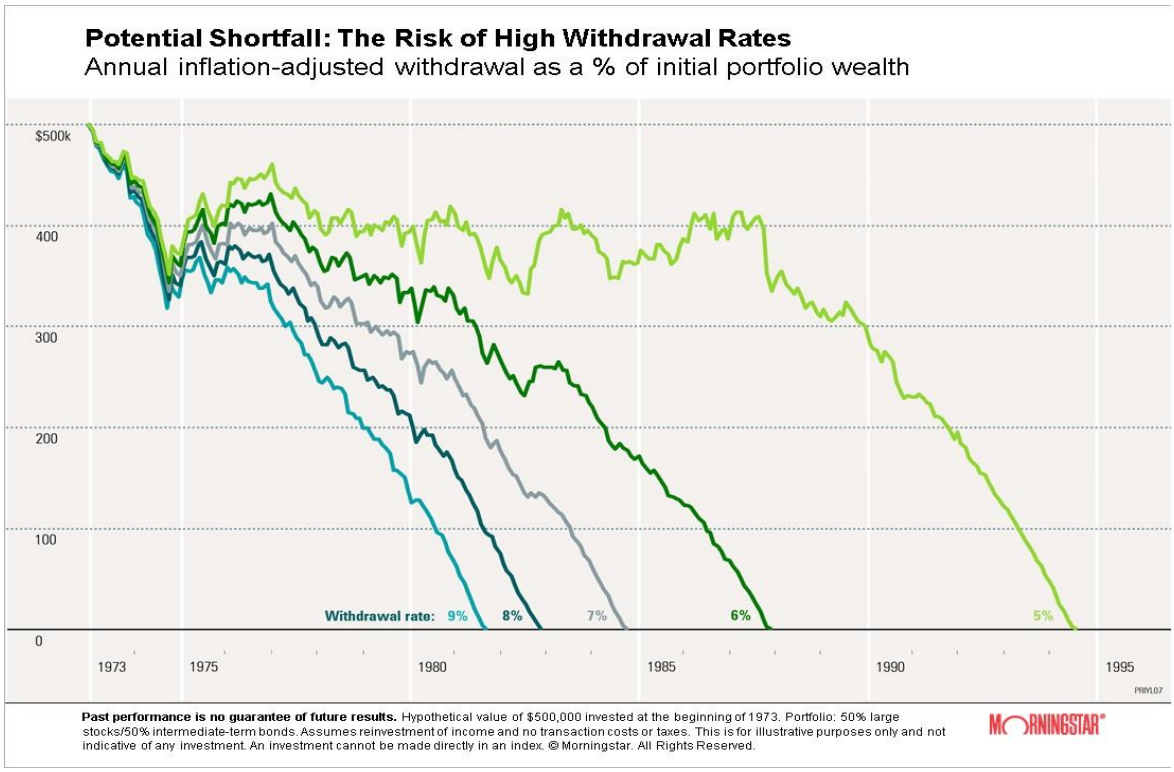


Figure 2

According to the U.S. Bureau of Labor Statistics, 27% of Americans said they will "keep working as long as possible," and 12% said they do not plan on ever retiring; the number one reason attributed to these responses was: they needed the money. Data compiled by retirement plan administrators and the Government Accountability Office found that nearly 60% of the U.S. households have no money in a 401(k) plan. Of those who had retirement savings, the median retirement balance is $63,000 – but this figure is skewed by households that have six or seven figures in their retirement accounts.



Some companies *do* provide benefits that might be taken for granted when leaving the workforce: subsidized (pooled) insurance, corporate discounts, deductions, and travel & expenses are a few that might impact a personal bottom line once revoked.

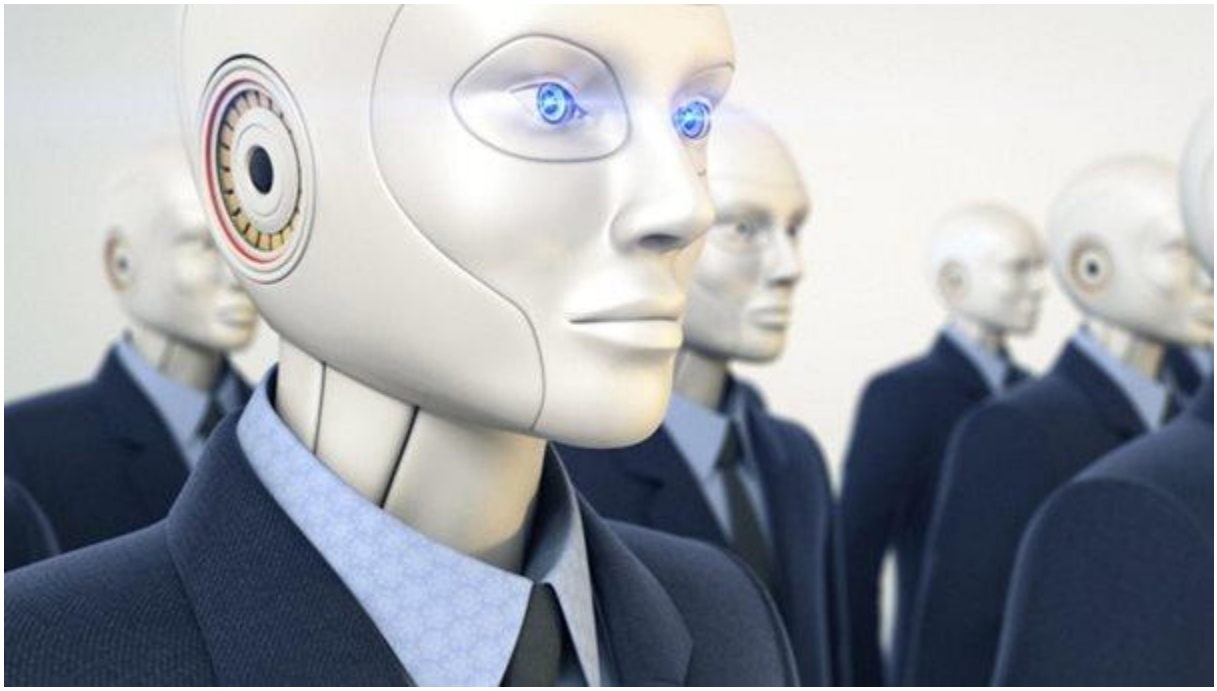
Battle of the Bulge:

In 1962, Ross Perot founded EDS, which he sold to General Motors for $2.4B in 1984. To win his first deal, according to one source, he had to wade through 77 rejections. Perot described the frustration that pushed him to leave the board of General Motors: "I come from an environment where if you see a snake, you kill it. At GM, if you see a snake, the first thing you do is hire a snake consultant. Then you get a committee on snakes and discuss it for a couple of years."

We are entering the "no snake zone." Many of these corporations have grown a bulge of mid-level managers/VPs that have climbed the compensation ladder to the point of non-transferability; many have reached the Peter Principle (Laurence J. Peter): the observation that every employee rises in corporate hierarchy through promotion until they reach their respective incompetence. There are socioeconomic factors that are disquieting some executives while others are managing their finances like deer in the headlights and postulating that they may maintain their position until the end of days.

> **Peter Gibbons**: You see, Bob, it's not that I'm lazy, it's that I just don't even care.
> **Bob Porter**: Don't - don't care?
> **Peter Gibbons**: It's a problem of motivation, all right? Now if I work my ass off and Initech ships a few extra units, I don't see another dime, so where's the motivation? And here's another thing, I have eight different bosses right now.
> **Bob Porter**: Eight?
> **Peter Gibbons**: Eight, Bob. So that means when I make a mistake, I have eight different people coming by to tell me about it. That's my only real motivation is not to be hassled. That, and the fear of losing my job. But you know, Bob, that will only make someone work just hard enough not to get fired. [2]

Believe it or not, there are people out there who are willing to do your job for less, and even if they 'are not as good as you' the company can, unfortunately, make a cost/value judgement from an excel spreadsheet to scare you to obsolescence. Use the example of Hewlett Packard where they have laid off tens of thousands of employees in recent years to buy other businesses (Nimble Storage, Samsung's Printing Business, ArcSight, 3Par, Palm, Melodeo, 3Com – all in the last decade).



In a 1967 *McKinsey Quarterly* article, "The manager and the moron," Peter Drucker noted that "the computer makes no decisions; it only carries out orders. It's a total moron, and therein lies its strength. It forces us to think, to set the criteria. The stupider the tool, the brighter the master has to be—and this is the dumbest tool we have ever had."[3] How things have changed. After years of promise and hype, machine learning has at last hit the vertical part of the exponential curve. Computers are replacing skilled practitioners in fields such as architecture, aviation, law, medicine, and petroleum geology—and changing the nature of work in a broad range of other jobs and professions.

With data from the U.S. Bureau of Labor Statistics, McKinsey & Company has recently compiled the potential of U.S. jobs converting to robotics and/or automation (a dramatic update from 1967). There is estimated to be 1.3 million new industrial robots installed between 2015 and 2018, but that is not just reserved for low-skill, low-wage jobs. According to McKinsey's analysis: "Doctors (23%), nurses (29%), and even CEOS (25%) all have significant amounts of their jobs that can be automated with current technology. Almost half (47%) of what pharmacists do can be done by robo-pharmacists, and 72% of commercial pilot activities can be done through computers." They go on to say, "According

to our analysis, fewer than 5 percent of occupations can be entirely automated using current technology. However, about 60 percent of occupations could have 30 percent or more of their constituent activities automated. In other words, automation is likely to change the vast majority of occupations—at least to some degree—which will necessitate significant job redefinition and a transformation of business processes."

Just because a job has a potential to make a significant shift to automation and robotics does not mean a career path will come to an end, nor does it mean other opportunities will not present themselves. Take the dishwasher… it was invented in the late 1800's and we know from Disney's *Carousel of Progress* that many homes had them in the 1940's, yet there are over 300,000 estimated people employed as dishwashers. There is still hope if you dreamed to be a dishwasher ☺. We can find solace in the dishwasher story (beyond the fact that robots did not kill jobs), in knowing more cerebral and mentally rewarding careers lie ahead of us.

Instead of maundering on about the calamity of corporate America, we hope this induces action to "know where you stand" with your current and future finances. As a valued executive of your company, the rewards you receive for your uncommon vision and leadership can be significant. Along with rewards, however, come unique challenges and risks. Since your earnings are closely related to your company's success, it is prudent to separate your personal future from your employer's. As a trusted, unbiased partner, SOUND Wealth Management Group assists in analyzing your sensitivity to a single business entity by removing the emotion and proximity that might skew decisions. SOUND Wealth Management Group offers complementary financial planning consultations, and with our Wealth Management Virtual Office, we are able to provide guidance in most of the United States.

SOUND Wealth Management Group will synchronize your financial plan to your goals and continue to provide informed guidance to you and your family. SWMG is overt and forthcoming with investment management. As Accredited Investment Fiduciary® (AIF®), we have the training to implement a prudent process into the investment practices of SOUND Wealth Management Group to help you "know where you stand" and plan for the future.

Let's start the conversation…

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Figure 1: Source NBC/Universal

[2] And "Cheer Up" Image from movie *Office Space* courtesy of Judgmental Films