LIFETIME FINANCIAL PLANNING
THE CAUSE WAY

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Contents

The problem

Something seems out of balance in our lives. There is a disconnect. Our hearts yearn to invest in causes — the things we truly care about. We speak passionately about them and dream of a day when we can dedicate ourselves to them, but often that day never comes.

What would our world look like if our level of investment in causes was raised to match our level of care? If we were truly doing justice to the place of the causes in our hearts?

The grey 'before picture' in the diagram below shows the scales out of balance — our level of investment (on the right) being much less weighty than our burden for the cause. This paper proposes several 'Cause Way' approaches which not only restore balance, but also transform the scales and the picture in the process, setting the scales into circular motion.

The Cause Way for individuals

Strategic planning for our lives

Businesses live or die based on their ability to produce outcomes in-line with the owners' objectives. Successful businesses usually have a clear understanding of their objectives/purpose/mission/cause, develop a strategy to achieve it, then carry out their strategy with discipline.

How many of us operate this way in the business world, but not in our personal lives? Why do we apply more rigour to our business and career planning than to our life planning? Our actions imply, wrongly, that we care more about our business outcomes than our life outcomes.

What would a typical set of life objectives look like? Perhaps to maximise the outcomes over our lifetimes, of several of the following causes:

1. Career success.
2. Happiness.
3. Love and relationships.
4. Spiritual ends — e.g. salvation/honouring God/becoming pure/a better reincarnation/living a morally good life.
5. Pleasure/comfort/money/housing/food/experiences/travel/retirement.
6. Security/freedom/choice/health.
7. Provision for family.
8. Social causes/contributing to others (e.g. in the area of education, research, children, environment, animals, arts & culture, community, poverty, women's issues, health services, human rights, religion, disability, elderly, veterans, bullying, social justice, public policy, science, international affairs, disaster relief).

Cause #8 is most likely to be in a state of imbalance in our lives for large numbers of people — where our investment doesn't match our level of care. For example, according to www.one.org[1], seven out of 10 American young-adults care about one of the causes listed under #8. Statistics show that the rate of significant donation of time and money to causes is much lower than seven out of 10.

This paper focuses on a sub-set of the 8 causes — presenting a case study on how we might more strategically plan and use our finances, time, and other resources to maximise outcomes across a combination of causes #6, #7, and #8. Specifically, it assumes a personal life objective of 'maximising our contribution to cause #8 (social causes), while at the same time accomplishing #6 and #7 (security and providing for our families)'.

Of course, it would also be possible, and interesting, to apply the concepts in this paper to other combinations of the #8 causes.

[1] http://www.one.org/us/2013/10/10/infographic-how-young-adults-are-supporting-causes-and-why-you-should-care/

The graphic below shows the four key questions answered in this paper. The answers to these four questions effectively map out a strategy for maximising your contribution to your cause, while also providing for yourself and your family.

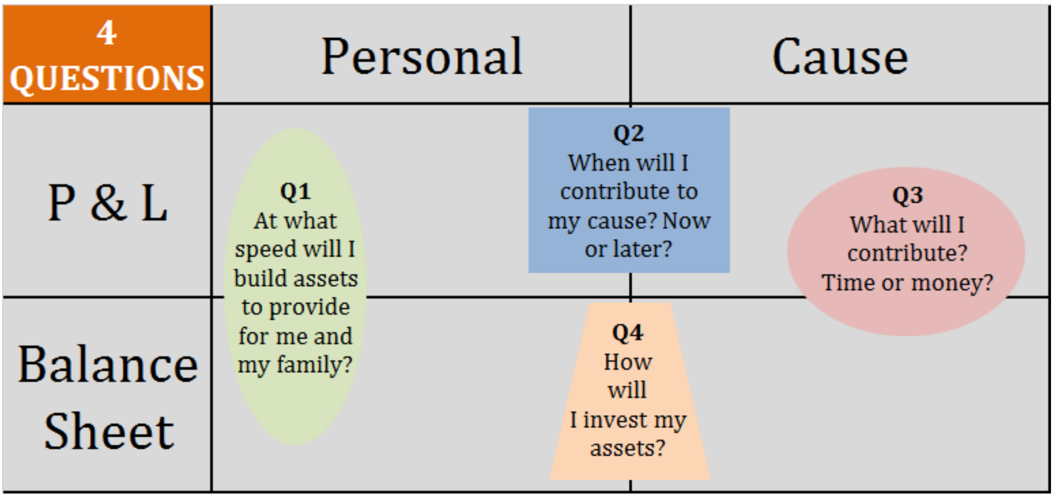
The four questions are set against the background of a 2x2 'life grid', which will be explored later in the paper.

Question 1 relates to the speed at which the net assets in one's personal Balance Sheet will be accumulated, which is driven by day-to-day income and expenditure decisions in the personal P&L (profit and loss) context — and thus straddles both areas.

Question 2 deals with the tension between dedicating time and income to personal activities, or to activities of your cause, and how that balance might shift over a lifetime.

Question 3 looks at whether time, money, or other resources, are the most effective way to contribute to the P&L of the cause.

Question 4 poses the question of whether some of our financial assets could be effectively invested or 'parked' in the cause, which may free up capital for the cause and therefore stimulate growth.



Q1 — At what speed will I build assets to provide for me and my family?

And...

Q2 — When will I contribute to my cause? Now or later?

A simple lifetime financial plan would set out a desired path for the level of net assets throughout one's lifetime. It is a straightforward and highly informative exercise that virtually none of us have ever done. The following are three very distinct plans that aim to bookend and characterise the myriad of possible plans:

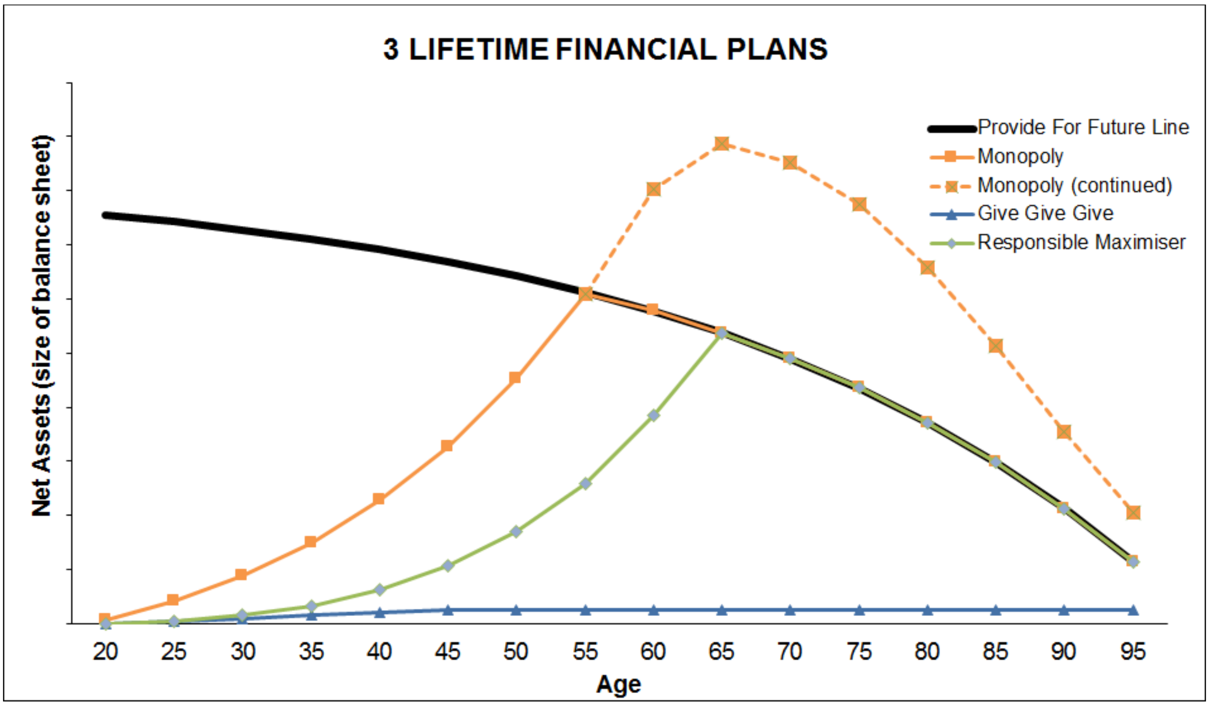
1. The 'Monopoly' plan — accumulate as much money and property as possible for now, working towards personal financial independence (shown on the graph below as the 'provide for future' line) as soon as possible. Defer all contribution to the social cause until retirement. In many cases, the Monopoly plan ends up extending beyond the 'provide for future' line in order to build additional quality of life and security.

2. The ‘Give Give Give’ plan — contribute to the cause as much as possible, in time or money, now and forever. Deliberately don’t build financial assets — yearly income roughly matches living expenses, plus cause donations.

3. The ‘Responsible Maximiser’ plan — accumulate assets at a pre-determined rate sufficient to provide for family and for future security, **AND** steadily contribute to the cause from youth to old age. Aim to reach the ‘provide for future’ line at an age where further paid work is unlikely.

Notes:

- ➢ *any of the above plans may include a bequest to family and/or a social cause.*
- ➢ *real-life outcomes will be volatile and require adaptation — not smooth, as pictured below.*



The Monopoly plan

The primary focus of the Monopoly plan in the working years is on causes #6 and #7 — security and providing for family by acquiring money and building the balance sheet. One way of describing the Monopoly plan is to, “first fit our own oxygen masks, and after that we can help other people”.

Financial independence (the ‘provide for future’ line) is reached in this example — one of a high income earner — in the early 50s. At this time, some people may choose to cease accumulating assets and devote time or money to their cause, while others might continue to accumulate assets for another 10 years, before turning to the cause.

Purchasing a house reasonably early in a working career is a decision that can make logical sense for a high income earner on the Monopoly plan. They receive stability and security and can ‘put down roots’. It generates larger expenses, but in most cases these are affordable and can be paid off before retirement, so the house purchase doesn’t come at any cost to the social cause.

The 2x2 'life grid' is another way of telling the story of the Monopoly plan. The colour within each cell represents the health of that cell at that point in time. Specifically:

- A white personal P&L means one is losing money — income is less than expenses. A black personal P&L is one where significant savings are being accumulated — income is significantly more than expenses. Light grey represents a balanced P&L and dark grey represents small savings.

- A white personal Balance Sheet means zero assets. A black one shows that sufficient assets are held to be able to provide for future income needs for life (under most plausible scenarios). Black corresponds to a position above the 'provide for future' line.

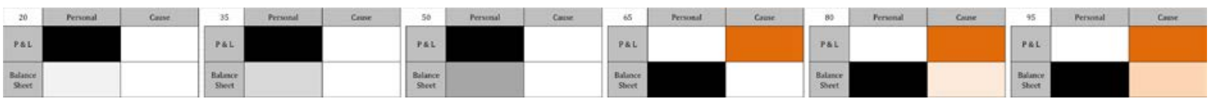
- A white cause P&L means that no time or money is being contributed to the cause. A dark orange one means that a significant amount of time or money is going to the cause. A light orange one represents a small contribution of approximately <10% of our time or money, and medium orange represents between 10% and 50% of our time or money.

- A white cause Balance Sheet means that we are contributing nothing to the assets of the cause. A dark orange one means that we are contributing the majority of our assets. Light orange represents <10% of our assets, and medium orange 10% to 50%. The cause Balance Sheet will build soft assets slowly over time just through our contributions of time and money — as the cause delivers more outcomes through our efforts, its brand, relationships and infrastructure will grow.

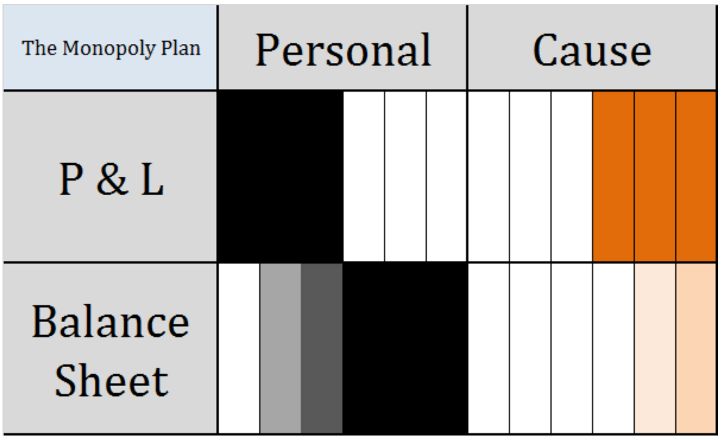
For example, the following grid describes the position at age 35 under the Monopoly plan — the personal P&L is black, signifying savings are being accumulated. The personal Balance Sheet is light grey, indicating a small amount of assets have been built up (probably including some equity in a house). The cause P&L and cause Balance Sheets are white — indicating no investment of time, money or assets in the cause.

35	Personal	Cause
P & L		
Balance Sheet		

The following six grids represent a snapshot of the health of the personal and cause P&Ls and balance sheets at six different ages — 20, 35, 50, 65, 80 and 95.



These grids are summarised into a single life grid below — with the six columns within each cell representing the progression of the 'health' of that element across the six ages from 20 to 95.



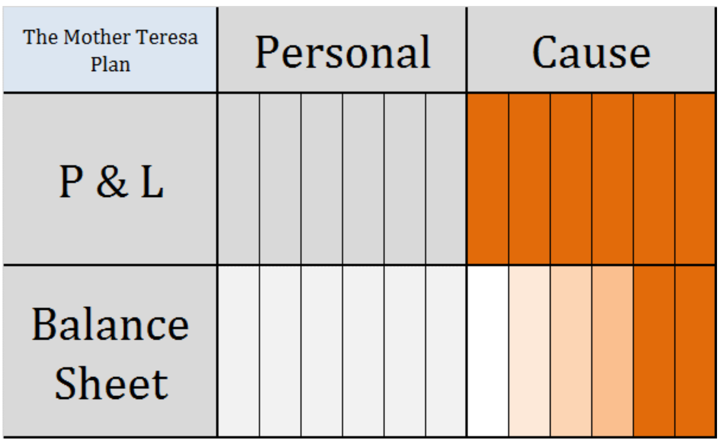
Key features of the Monopoly plan life grid:

1. The personal P&L is strong in the working years, and sufficient in the later years to track along the 'provide for future' line, such that the assets don't run out.
2. The personal Balance Sheet builds quickly — almost up to 'provide for future' (black) by age 50.
3. The contribution to the cause P&L is nil until age 65 onwards, and then strong thereafter.
4. The cause Balance Sheet is weak all the way through, only starting to build in the older ages as the person's contribution begins to bear fruit.

<u>The Give Give Give plan</u>

The primary focus of the Give Give Give plan is to maximise resources into cause #8 — the social cause — both now and into the future. There is some means of funding the personal P&L needs throughout the lifetime — through work or Government age pension, but no financial assets are accumulated.

Followers of the Give Give Give plan would usually rent a house for their lifetime, unless they receive a house through marriage or a bequest. Even then, it may be logical for a Give Give Giver to sell the property and donate the proceeds to their cause.



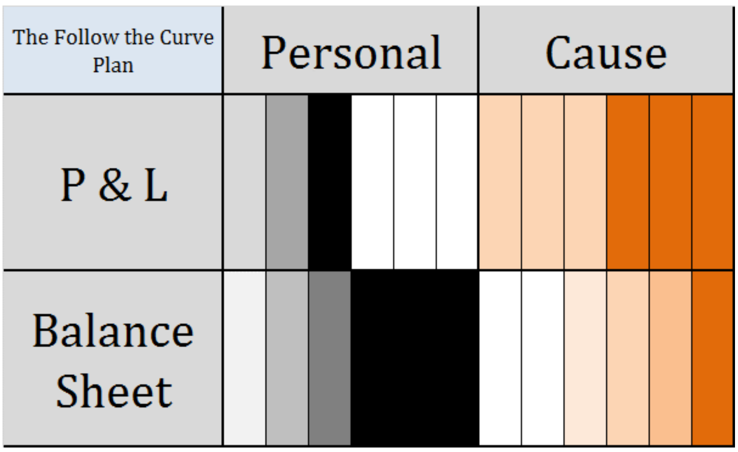
Key features of the Give Give Give plan life grid:

1. The personal P&L is sufficient just to meet expenses in the working years, and in retirement (probably through the age pension).
2. The personal Balance Sheet never builds.
3. The contribution to the cause P&L is large from early on, maximising long-term returns, and would build through the lifetime due to expertise, social networks, etc.
4. The cause Balance Sheet builds over time as the worker's activities bear long-term fruit, through the building of infrastructure, relationships etc.

<u>The Responsible Maximiser plan</u>

The focus of the Responsible Maximiser is to contribute as much as possible to cause #8 throughout their lifetime, while also ensuring a satisfactory level of causes #6 and #7. The specific shape of the asset accumulation curve and the age at which the 'provide for future' line is targeted will depend upon the risk appetite, health and working circumstances of that family. A goal under this plan is to create capacity from early in one's life, to invest time or money into the social cause.

The timing of the house purchase is a difficult decision for the Responsible Maximiser. The positive aspect is that owning a house can make a major contribution to the 'provide for family' cause — by creating stability, security and relational capital that can be hard to achieve through traditional rental arrangements. On the other hand, mortgage repayments are typically significantly higher than rental payments and can be volatile, putting strain on the personal P&L. Transaction and purchase costs also reduce the net assets in the personal Balance Sheet. Therefore a house purchase constrains the time, money and assets that can be contributed to the cause, and restricts options such as reducing paid employment hours, or working for the cause for a reduced salary. The decision on the right timing for a house purchase is a balancing act between causes #6, #7 and #8. There may be a way to achieve the best of both worlds — stability, security and relational capital, in concert with the lower financial costs of renting — through a specially designed **Residential Property Trust** (the first of several ideas highlighted in purple and summarised in the 'Cause Way systems' section towards the end of this paper).



Key features of the Responsible Maximiser plan life grid:

1. The personal P&L is sufficient to meet expenses and put aside progressively more savings in the working years.

2. The personal Balance Sheet builds to the financial independence line at age 65 and then reduces.
3. The contribution to the cause P&L is moderate through the working years due to the spare capacity created by building personal assets more slowly. After retirement the contribution to the cause P&L steps up.
4. The cause Balance Sheet builds slowly over time as the worker's activities bear long-term fruit, through the building of infrastructure, relationships etc.
5. Smaller apparent social cause outcomes than the Give Give Give plan (but not always — see below), and higher personal security and provision for family.

<u>How to choose the plan which will maximise my lifetime contribution to my causes?</u>

The key task is to estimate the differing ROIs (returns on investment) from investing in financial assets and investing in the social cause. The ROI on financial assets over the long-term is well established — somewhere between 0% and 5% real return. The trickier part is estimating the subjective ROI of investing time/money/other into a social cause. Many people know instinctively that the ROI for their social cause 'in their eyes' will far exceed the ROI on financial assets. For example, in the case of a social cause that alleviates poverty, one might argue that, "you can't put a price on changing peoples' lives". The one-off value created, in the eyes of an advocate of that cause, is greater than the dollar value of the investment, <u>and</u> the value will multiply rapidly into the future as the person with the changed life is able to leverage that initial investment for themselves and others over time.

If we assume that, for marginal levels of investment, cause #8 has a higher ROI than causes #6 and #7, then it will make sense to invest in the social cause as soon as possible, to achieve the highest lifetime returns. In other words, a person's lifetime impact on their causes is likely to be maximised by investing in the social cause as early as possible.

The Monopoly plan is fairly easy to eliminate from the contenders — as its very late investment into social causes represents a massive missed opportunity to capitalise on the multiplicative returns available.

Comparing the outcomes under the Give Give Give and Responsible Maximiser plans is less simple. The security and providing for family outcomes are superior under the Responsible Maximiser plan. On the other hand, the Give Give Give plan will usually generate higher social cause outcomes. Note though, that it is possible that the Responsible Maximiser plan could outperform on social cause outcomes if the follower is able to leverage their greater financial and soft assets built through their career, for the benefit of the social cause.

Thus, those people who care most about security and providing for family would likely choose the Monopoly plan. Those who care most about their social cause could choose either the Give Give Give plan or the Responsible Maximiser plan. Those who care fairly evenly about security, family and social causes would generate the best outcomes under the Responsible Maximiser plan.

Bequests

Bequests to family or social causes should be considered as part of one's lifetime financial plan — and will depend on the level of care in relation to causes #6, #7 and #8, as well as the life-stage and financial position of the individual and their family.

Ways to push the Responsible Maximiser curve to the right

If the curve can be pushed to the right, this will delay the accumulation of financial assets and result in heavier near-term investment in the cause, and therefore a higher lifetime return. Here are four ways to push the curve to the right:

1. **Better financial Cause Way literacy** — encouraging less financial asset accumulation and more investment in causes.
2. **Life and income protection insurance** — providing greater security against contingencies, allowing a slower asset accumulation.
3. **Renting for longer** — creating lower total P&L expenses in the early years, which would free up time or money to be invested in the cause. A **residential property trust** could pair investors with long-term renters, creating more capacity in the social economy.
4. **Building 'soft assets'** — such as relationships/social networks/experience/qualifications, all of which can give greater confidence in one's earning potential in later life (as well as enhancing one's ability to contribute value to the cause).
5. **Social worker or social entrepreneur salary market place** — where someone can fund an individual's time contribution to a cause over the long-term, allowing them to provide financially for their family and future, whilst focusing their efforts on the cause. A market place of some kind might help facilitate such arrangements.
6. **Allowing for incoming bequests** — making an allowance for a conservative amount of future bequest, if known with a reasonable degree of confidence.

Q3 — What will I contribute? Time or money?

The answer to this question may be revealed through reflection of the following detailed lines of thinking:

1. What type of contribution will create the most valuable short and long-term return for the cause?
2. What option is most sustainable?
3. Does your 'time pie' or 'money pie' have more capacity now? Over the coming years?
4. Will investing time engage you, energise you and create synergies in your life? And expand your 'soft assets', which may generate a future return for the cause?

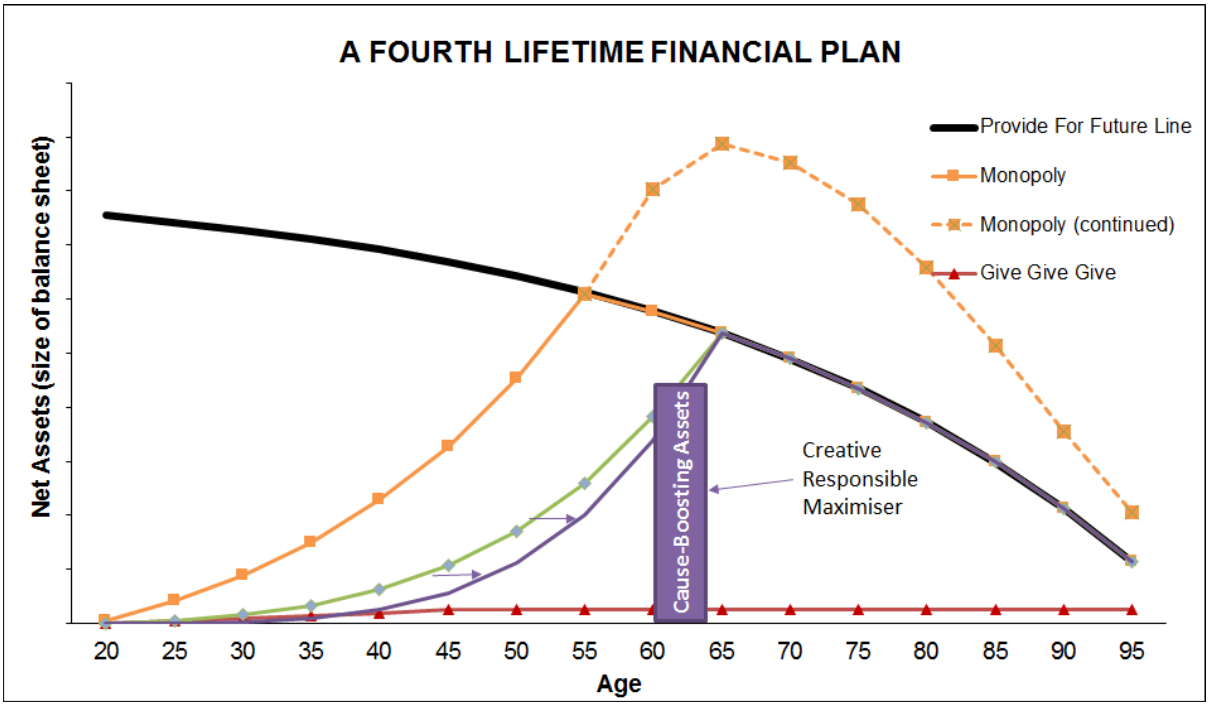
Q4 — How will I invest my assets?

An asset on our personal Balance Sheet that is invested, can generate 'returns' or 'pay-offs' in two ways. The first is the interest or yield or dividend, plus its increase in capital value. The second is the opportunities created for the recipient of the investment. For example, buying shares in a company or lending money to a company, allows that company to grow and seize new opportunities. An investment in our own house generates financial pay-offs, but also creates the opportunity to live in one place for a long time, build relationships in the area, and modify the house to fit our needs as circumstances change.

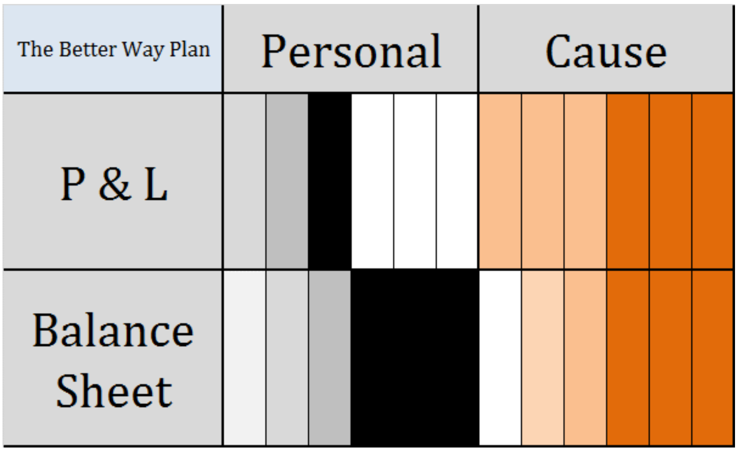
The majority of our non-house assets are invested in a 'lazy' manner in shares, investment properties, bonds or bank deposits. They generate a financial return, which is very useful, because it enhances our future ability to contribute to causes #6, #7 and #8. On the other hand, the opportunities created accrue to the holders of the investments, and not to any of our causes. Our share and bond investments facilitate growth for companies that we are indifferent to. Our investment properties deliver benefits to strangers who usually don't fit within our social cause criteria. And our bank deposits allow banks to grow their businesses.

What if we could find ways to invest our money that would boost our social cause — freeing up the capital of the cause and opening up new growth opportunities? Then our Balance Sheets would no longer be 'lazy'. An example might be a **social cause property trust** (see later in the paper) where individuals buy units in properties used by the causes and the trust rents the properties to the causes. Even more creatively, there might be ways for individuals to park their non-financial 'soft assets' in the causes. We could share our knowledge or skills or technical analysis or models, or share information about the cause with our social networks. One way to facilitate this would be the creation of a **'Soft assets' for causes inventory and matching service**.

A person who shifted their curve to the right using one or more of the six methods above, and who has also invested their financial and soft assets in their social cause might be referred to as a 'Creative Responsible Maximiser'.



Below is a potential life grid for a 'Creative Responsible Maximiser' plan:



Key features of the Creative Responsible Maximiser life grid:

1. Personal P&L is dark grey in the early working years, indicating that expenses are covered plus a small level of saving. And then light grey in later years, showing the drawing down of assets as they move down the financial independence line.

2. Personal Balance Sheet builds up slowly in early years, to a point of financial independence at age 65.

3. Cause P&L receives moderate contributions all the way through the working life, stepping up to significant contributions later.

4. Cause Balance Sheet is able to make use of the family's financial and soft assets all the way through their lives — starting small and building throughout the lifetime. In the older ages the financial assets fall, but this is more than offset by the increase in social networks, expertise, reputation, etc.

5. It achieves strong cause outcomes and strong personal financial outcomes.

Cause Way systems (and an invitation)

All of the following initiatives have significant potential to free up time and money across our society to be invested in causes, or to achieve greater growth in social cause outcomes through the parking of our financial and soft assets in causes.

- **Better financial Cause Way literacy.**
- **Social worker/social entrepreneur salary market place.**
- **Residential property trust.**
- **Social cause property trust.**
- **'Soft assets' for causes inventory and matching service.**

I plan to invest time into several of the Cause Way system ideas in the coming years and would warmly welcome partners in the journey.

I would also welcome any personal reflections about the personal financial planning concepts in this paper.

Please do get in touch with me for a coffee.