**p. 3**

**THE ONE-PAGE BUSINESS PLAN**

How much time do we waste thinking about a plan and not putting one into practice?

**p. 11**

**RETIREMENT PLANNING MYTHS AND REALITIES**

In today's world, the responsibility of being prepared falls on  your own shoulders more than ever before.

# SAVE A DOLLAR, NOW TWO:

*FINANCIAL AND BUSINESS PLANNING FOR AUCTION PROFESSIONALS*

National Auctioneers Association | November 2018

## TABLE OF CONTENTS

INTRODUCTION .......... 2

ONE-PAGE BUSINESS PLAN .......... 3

FUND YOUR BUSINESS .......... 4

UNDERSTANDING THE DIFFERENCE BETWEEN A CONTRACTOR VS. AN EMPLOYEE .......... 7

DIVERSITY, ITS UNEXPECTED BENEFITS, AND WHAT IT MEANS FOR AUCTION COMPANIES .......... 9

RETIREMENT PLANNING MYTHS AND REALTIES .......... 11

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# A GOAL WITHOUT A PLAN IS JUST A WISH...

"I will conduct auctions on behalf of my sellers and clients."

For a lot of auction professionals, that is the extent of their company's business planning. It is a worthwhile statement, no question. What is questionable, however, is how well that statement plays into a business' long-term sustainability.

What happens if the auction professional's health declines and he or she must cut back the number of auctions they conduct? What if the market itself slows down?

Suddenly, the simple "plan" anchored to "I'll just keep doing auctions" seems less stable, with the business wobbling as a result.

Unfortunately, there are many stories in the auction industry of those scenarios occurring and knocking out many well-intentioned, talented businesses that had little or no margin for error, or sick time, or slow markets.

However, say none of those apply. Say auctions have been rolling through the door from the moment your opened shop or started work as a contract Auctioneer. There is a whole other piece to ensuring long-term business success – financial planning.

It's one thing to conduct a lot of successful auctions, but the fact is retirement will be on the horizon someday – for one reason or another. That can't happen without sound financial planning for both you and your business.

Both business planning and financial planning are topics that tend to get left on the sideline for many auction professionals, which is why NAA has invited them back into the game. Take time to read this latest *NAA iSeries – Because it's about YOU!* whitepaper that examines not just those two pieces but also others that all work together to help guide you toward building the strongest plan you can to achieve your goals well into the future.

Your success is NAA's success is the auction industry's success. And, we're rooting for you with the same high level of passion and energy we put into achieving NAA's Education, Promotions, and Advocacy strategic initiatives.

Happy reading and happy planning!

***The iSeries Team***

# THE ONE-PAGE BUSINESS PLAN

*How much time do we waste thinking about a plan and not putting one into practice?*

It sounds cliché, but a business plan is an entrepreneur's secret weapon.

Simply put, a business plan is a written description of your business' future. It explains your goals and outlines how you plan to achieve those goals.

When done properly, a business plan will provide a roadmap to success for your start-up or growing business. The simple act of putting pen to paper to write down your ideas and outline how the business will operate can be helpful in ensuring that you fully articulate your vision. It also helps to serve as a gauge for checking your progress as the business grows.

"We know that we ought to have a business plan, but how much time do we waste thinking about it and not actually putting it into practice?" says NAA member Sara Rose Bytnar, CAI, AARE. The third-generation auction veteran oversees all marketing efforts and customer relations at Beth Rose Real Estate & Auctions.

Creating the plan can seem downright daunting, yet Bytnar says it doesn't have to be. You don't need an expertly manicured or incredibly lengthy document to be successful. The best business plans are thorough and concise, which can all be accomplished in one page.

A successful one-page business plan should include the following three key elements:

- The first is the **mission statement**, where you summarize the organization's purpose. Describe the values, goals, and culture of the company. Answer the questions "What business are we in?" and "What is our business for?"

- The second is the **vision statement**, this segment provides strategic direction and describes what you want the company to achieve in the future. What do you want to provide to the customer? These goals should be specific and straightforward while striking a balance between ambitious and achievable.

- Finally, an **evaluation element** should provide

## YOUR TIME IS VALUABLE — PLAN ACCORDINGLY

Strong auction business planning will make sure to incorporate three key elements:

1) Mission Statement

2) Vision Statement

3) Evaluation Framework

SWOT ANALYSIS


the framework for focusing on the strengths of your business and minimizing potential threats.

Bytnar recommends using the SWOT Analysis as your evaluation tool in your business plan. Created in the 1960s by a management consultant, the acronym stands for strengths, weaknesses, opportunities, and threats. It is a solid tool for successful long-term planning and growth. Let's look at each step:

**Strengths** – A company's capabilities. Explore and determine what you can do well and how you stand apart from competitors. Examples many include a strong brand name or a good reputation among customers.

**Weaknesses** – Where can you improve? A high cost structure or poor reputation among customers would be examples of weaknesses. Try to clearly identify what your business may be lacking.

**Opportunities** – This is where you identify areas of potential profit and growth in your market. Are there unfulfilled customer needs or new technologies available to tap into, for example? Can the perception of your business be positively improved?

**Threats** – Outline the changes that present a risk to the company. Has there been a shift in client taste? Types of threats can also include things like new regulations or potential competitors. Is there anything decreasing your profits?

*Finished your business plan? Now is the time to ask advice, review and revise.*

Once you have created your working business plan, you can use it as a springboard for digging deeper. Ask for advice. Review, revise, and add as necessary. Consider expanding your business plan with Key Performance Indicators or KPIs. These are measurable values that demonstrate what you can do to achieve your business goals. Take a look at your business plan at the end of the year and assess your achievements and progress.

"I challenge you to start today," Bytnar said. "Take 15 minutes and jot some ideas down. Business planning is a long-term commitment. You'll need to start harvesting those ideas and data so you can make good decisions."

# FUND YOUR BUSINESS

*There are many ways to fund your auction business. All of them come down to doing your research and determining which option is the best for you.*

It costs money to start a business. Funding your business is one of the first — and most important — financial choices most business owners make. How you choose to fund your business could affect how you structure and run your business.

The first step is to determine how much funding you'll need.

Every business has different needs, and no financial solution is one size fits all. Your personal financial situation and vision for your business will shape the financial future of your business.

Once you know how much startup funding you'll need, it's time to figure out how you'll get it. Here are several ways to do so.

**Fund your business yourself with self-funding**

Otherwise known as bootstrapping, self-funding lets you leverage your own financial resources to support your business. Self-funding can come in the form of turning to family and friends for capital, using your savings accounts, or even tapping into your 401k.

With self-funding, you retain complete control over the business, but you also take on all the risk yourself. Be careful not to spend more than you can afford and be especially careful if you choose to use tap into retirement accounts early. You might face expensive fees or penalties or damage your ability to retire on time — so you should check with your plan's administrator and a personal financial advisor first.

**Get venture capital from investors**

Investors can give you funding to start your business in the form of venture capital investments. Venture capital is normally offered in exchange for an ownership share and active role in the company.

Venture capital differs from traditional financing in several important ways. Venture capital typically:

- Focuses high-growth companies
- Invests capital in return for equity, rather than debt (it's not a loan)
- Takes higher risks in exchange for potential higher returns
- Has a longer investment horizon than traditional financing

Almost all venture capitalists will, at a minimum, want a seat on the board of directors. So be prepared to give up some portion of both control and ownership of your company in exchange for funding.

**How to get venture capital funding**

There's no guaranteed way to get venture capital, but the process generally follows a standard order of steps:

**1. Find an investor**
Look for individual investors — sometimes called "angel investors" — or venture capital firms. Be sure to do enough background research to know if the investor is reputable and has experience working with startup companies.

**2. Share your business plan**
The investor will review your business plan to make sure it meets their investing criteria. Most investment funds concentrate on an industry, geographic area, or stage of business development.

**3. Go through due diligence review**
The investors will look at your company's management team, market, products and services, corporate governance documents, and financial statements.

**4. Work out the terms**
If they want to invest, the next step is to agree on a term sheet that describes the terms and conditions for the fund to make an investment.

**5. Investment**
Once you agree on a term sheet, you can get the investment! Once a venture fund has invested, it becomes actively involved in the company. Venture funds normally come in "rounds." As the company meets milestones, further rounds of financing are made available, with adjustments in price as the company executes its plan.

*With self-funding, you retain complete control over the business, but you also take on all the risk yourself. Be careful not to spend more than you can afford.*

**Use crowdfunding to fund your business**

Crowdfunding raises funds for a business from a large number of people, called crowdfunders. Crowdfunders aren't technically investors, because they don't receive a share of ownership in the business and don't expect a financial return on their money.

Instead, crowdfunders expect to get a "gift" from your company as thanks for their contribution. Often, that gift is the product you plan to sell or other special perks, like meeting the business owner or getting their name in the credits. This makes crowdfunding a popular option for people who want to produce creative works (like a documentary), or a physical product (like a high-tech cooler).

Crowdfunding is also popular because it's very low risk for business owners. Not only do you get to retain full control of your company, but if your plan fails, you're typically under no obligation to repay your crowdfunders. Every crowdfunding platform is different, so make sure to read the fine print and understand your full financial and legal obligations.

**Get a small business loan**

If you want to retain complete control of your business, but don't have enough funds to start, consider a small business loan.

To increase your chances of securing a loan, you should have a business plan (see pg. 3), expense sheet, and financial projections for the next five years. These tools will give you an idea of how much you'll need to ask for, and will help the bank know they're making a smart choice by giving you a loan.

Once you have your materials ready, contact banks and credit unions to request a loan. You'll want to compare offers to get the best possible terms for your loan.

**Use Lender Match to find lenders who offer SBA-guaranteed loans**

If you have trouble getting a traditional business loan, you should look into SBA-guaranteed loans. When a bank thinks your business is too risky to lend money to, the SBA can agree to guarantee your loan. That way, the bank has less risk and is more willing to give your business a loan.

Use Lender Match to find lenders who offer SBA-guaranteed loans.

**Small Business Administration investment programs**

**1) Small Business Investment Company (SBIC):** SBICs are privately owned and managed investment funds licensed and regulated by the Small Business Administration. They use their own capital, plus funds borrowed with an SBA guarantee, to make equity and debt investments in qualifying small businesses. Learn more about SBICs to see if your business might qualify.

**2) Small Business Innovation Research (SBIR) program:** This program encourages small businesses to engage in federal research and development that has the potential for commercialization. Find out if the SBIR's competitive awards-based program makes sense for you.

**3) Small Business Technology Transfer (STTR) program:** This program offers funding opportunities in the federal innovation research and development arena. Small businesses who qualify for this program work with nonprofit research institutions in the early and intermediate stages of starting up. Find out if the STTR program makes sense for your business.

*Ed note: This information was obtained from the U.S. Small Business Administration website at: sba.gov/business-guide/plan-yourbusiness/fund-yourbusiness.*

*While the Bureau of Statistics estimates that roughly 10 percent of the workforce (14.4 million people) is classified as independent contractors, the Department of Labor says that roughly 3.4 million of them are misclassified and should actually be considered employees.*

# UNDERSTANDING THE DIFFERENCE BETWEEN A CONTRACTOR VS. AN EMPLOYEE

*If you don't know the difference, you could wind up in jail.*

By James Myers

The auction industry can be particularly vulnerable to a problem that can lead not only to bankruptcy, but also jail time.

It occurs when an independent contractor is found by state and federal agencies to be misclassified and actually fits under the description of an employee. The issue is only magnified by the fact that the guidelines what defines an independent contractor can differ per investigator.

NAA member Rich Schur, CAI, BAS, MPPA, said it's a topic he discussed during a three-hour CAI session.

"Of the many regulatory things Auctioneers can get caught up in," Schur said, "this is one of the most disastrous."

The Department of Labor, just one of four organizations that can come after parties that may run afoul of the classification, said in 2015 that it recovered $246 million in back wages. That number is in stark contrast to the previous year's $79 million recovered, which could mean the Department is cracking down on the issue.

The Bureau of Statistics estimates that roughly 10 percent of the workforce (14.4 million people) is classified as independent contractors. However, the Department of Labor has an estimate of its own – roughly 3.4 million of them are misclassified and should actually be considered employees.

**Value of "contractor"**

The value of classifying someone as an independent contractor is that the employer is not paying taxes on those wages. Instead, the company

## CALIFORNIA RECLASSIFIES CONTRACT LABOR

Earlier this year, the Supreme Court of California made it harder for employers across all industries, including auction, in the state to classify workers as independent contractors.

NAA members can visit auctioneers.org and see the archived story on page 42 of the October 2018 issue of *Auctioneer.*

that hires the independent contractor only has to pay the fee, wage or commission. There is no responsibility for paying overtime, vacation, payroll taxes, FICA, Social Security – that's the responsibility of the independent contractor.

Another perk for the independent contractor is that the person can deduct mileage, expenses, etc. – anything that falls under the cost of doing business. That makes it an enticing proposition.

Enthusiasm should be quickly tempered, though, when considering the fact that if you wrongly bring someone in as an independent contractor, there are four government agencies that are going to potentially take notice, perform audits, and levy fines and penalties that can devastate your business.

"If they find that the misclassification was intentional," Schur said, "that may qualify as a criminal offense and result in a prison term, plus tens, if not hundreds, of thousands of dollars in penalties and fines."

The Internal Revenue Service is one agency that will get involved and hand down its monetary punishment. The Department of Labor can also step in, and the independent contractor who actually qualified as an employee is now owed back wages and overtime. Also, the state's Department of Revenue can come in and collect back taxes. The state's Department of Labor can also get involved and hand down its own fines and penalties.

"An independent contractor who is misclassified and should be an employee creates a huge liability to both the company and the contractor," Schur said. "Huge liability."

It's a problem in the auction industry, Schur said, because so many contract bid callers work as independent contractors. Some will consider themselves independent contractors because they work for multiple auction houses. They may be legitimate contractors, but working for more than one company is just one of many indicators that they're not an employee.

*"Of the many regulatory things Auctioneers can get caught up in, this is one of the most disastrous... An independent contractor who is misclassified and should be an employee creates a huge liability to both the company and the contractor."*

*-Rich Schur, CAI, BAS, MPPA*

One of the most important aspects of this issue involves control. The company that hires contractors cannot control them like they would an employee. Schur said Auctioneers can demonstrate they may qualify as an independent contractor if they establish themselves as an LLC or other business entity – there has to be some business structure there, not just an individual.

Having insurance is recommended, and you must demonstrate that you are providing a skilled service to multiple clients. You should have the control to accept or reject assignments as you see fit. There should also be a contract between the contractor and the employer that specifically spells out that you are a contractor and not controlled by the company.

A true independent contractor will bring their own tools to the job, set their own schedule, and will bill the client instead of submitting a time sheet. Schur points to the IRS's independent contractors 20-factor test to determine if you qualify as a contractor or an employee. However, he cautions that this is not a fool-proof method of making that determination.

"It's guiding principles and nothing more," Schur warns. "You're always at the mercy of the investigator."

In the 20-factor guidelines, the IRS says that if a worker performs services in the order or sequence set by the person for whom the services are performed, that shows the worker is not free to follow his or her own pattern of work, which indicates they are employees rather than contractors. However, investment in facilities, such as tools used on the job, would indicate that the worker classified as an independent contractor.

**IRS Topic 762: Independent Contractor vs. Employee**

The IRS weighs in on the issue with "Topic 762 – Independent Contractor vs. Employee," saying that, "you should consider all evidence of the degree of control and independence in this relationship. The facts that provide this evidence fall into three categories – Behavioral Control, Financial Control, and the Relationship of the Parties."

- **Behavioral:** Does the company control or at least have the right to control what the job is and how the worker does their job?

- **Financial:** Are expenses reimbursed? Are tools provided or does the contractor bring in their own? Are the business aspects of the job controlled by the payer?

- **Relationship to parties:** Has a contract been written describing the relationship? How permanent is the relationship? Does the business offer employee-type benefits?

For 30-plus years, Schur's company hired an independent contractor to sell cars at an impound auction. The contractor came in with his own truck, microphone, experience, etc. The seller set the auction time, so Schur's company was, in theory, in the clear on that account, too. However, he's in no hurry to bring in outside help as a contractor if there is even the slightest doubt.

"Don't gamble if you're an employer," Schur advises. "If you're in doubt, make them an employee. It's a heck of a lot cheaper than going out of business. When in doubt, contact your attorney or tax professional."

**Ed. note – Prior to working in the auction industry, Schur earned his senior professional in human resources (SPHR) designation and ran an HR consulting company.*

# DIVERSITY, ITS UNEXPECTED BENEFITS, AND WHAT IT MEANS FOR AUCTION COMPANIES

*What's the risk of having buyers and sellers who are not different than you? A lack of diversity can mean limited business.*

*Auction professionals live in an ever-growing global society and should develop, understand and appreciate cultural differences and backgrounds to stay current and relevant in today's industry.*

Why is diversity important?

The question is short and simple, but the answers can be as individual as the people in a group trying to answer it. What's often left out of those answers, however, are the unexpected, valuable benefits that come to auction professionals when they help attract new faces to the industry.

Diversity in the industry is important because, as auction professionals, buyers, and sellers, we live in an ever-growing global society. And, as leaders, we need to develop, understand and have appreciation for cultural differences and backgrounds.

Having this appreciation allows auction professionals to build the best teams and be competitive in any market from local to global.

"The more diverse we are, the better we can run our business," says Frank Kitchen, BAS, of Glendale, Arizona.

**Diversity: What do your buyers look like?**

"What do your buyers look like? How many of your buyers are 100-percent just like you?" asks TiWanna Kenney, BAS, of Pflugerville, Texas. "What's the risk of having buyers who are not different from you? What's the risk of saying 'I only work with this one client'?"

*Having staff who can identify, relate, and communicate effectively with your buyers may mean the difference in a bid that day and turning them into sellers in the future.*

The answers seem obvious. Only working with a specific group of people immediately limits the buyer pool and potentially lowers the top dollar amount for a lot – something no auction professional wants to have happen.

Or, when it comes to attracting that next sale, is your staff built to handle and manage, for example, a family that comes through the door and wants to sell but doesn't speak the same language you do? Is your company built to auction in Spanish or another language that may be dominant in and around your local area?

"Does your staff reflect your buyers?" Kenney asks. Having staff who can identify, relate, and communicate effectively with those buyers may mean the difference in a bid that day and turning them into sellers in the future. In other words, can your staff meet the needs of your buyers? That's the question that needs to be answered, according to Kenney.

The benefits are not just external.

Internally, within the walls of your company, having diversity in your staff can lead to one or more of the following: increase in innovation and drive through idea sharing; resilience in tougher business times because of an expanded base, employee retention and engagement; long-term growth for your company; opportunities for government contracts or other similar contracts that ask for diversity; improved or increased profit margins; and an increase in moral/ethical value.

**Diversity: How to get started**

Those all sound good, but if those are end goals, where does someone begin the process of encouraging and implementing diversity in their auction business? Here are a few, immediate ways this can happen:

– **Examine and modify your business' mission statement.** Your mission statement is the foundation on which your entire business sits. (If you haven't developed one, now is the perfect time.) Therefore, if diversity is something you want to have reflected in your business, make it a part of your mission statement so that everything planned and developed refers back to it.

– **Hiring of staff and volunteers.** If your current staff doesn't reflect your buyers and sellers, or you see untapped potential in your community, focus on finding individuals who can help you connect to those groups.

– **Embrace diversity in your marketing.** People gravitate toward images and messages they can relate to. Creating an inclusive image through marketing can help bring those new buying and selling groups through your door.

– **Social media and mainstream media.** "Social media is social proof," Kitchen says. "We're so willing to go put up a thing about the Kardashians. We'll go put up a poop emoji. We'll go put up stuff that's not really going to affect us in a positive way. But, how awesome is it for us to go pop up a picture of this auction where we helped out.

"I've had people say, 'I didn't know you auctioned, Frank.' That's my mistake, not showing people what I was doing."

Whether it is diversity on your staff, in the industry overall, or just repositioning your brand story to the general public, momentum has to begin at the individual level.

"Nothing changes unless we do," Kenney says. "So, if we don't change the way we market, and if we don't change what we're putting out there, it's never going to come to fruition."

# RETIREMENT PLANNING MYTHS AND REALITIES

*In today's world, the responsibility of being prepared for retirement falls on our own shoulders more than ever before.*

Understanding the following six retirement planning myths and realities may mean the difference between making it and breaking it in retirement. NAA member Brad White, CAI, of KHP Capital, says to keep these in mind as you work on developing your retirement strategy:

***1) Myth: Social Security will cover your financial needs in retirement***

**Reality:** Many people believe that Social Security will be enough to fund their retirement. Unfortunately, this simply is no longer the case. On average, retirees receive $1,230 per month in Social Security benefits.

The Social Security Administration estimates that Social Security can only pay full benefits to retirees until 2033. After 2033 through 2086, it estimates covering 75% of benefits promised (www.ssa.gov/oact/tr/2012). Furthermore, the SSA estimates that Social Security benefits typically cover – at most – 40% of pre-retirement income (Source: Social Security Planner: Learn About Social Security Programs, Social Security Administration - April 2013).

***2) Myth: Medicare will pay for your health expenses during retirement***

**Reality:** Medicare covers about half of all medical expenses for its enrollees (Source: myretirementpaycheck.org, Medicare Myths and Realities - 2013). Medicare often focuses on shorter-term care where the patients' health is expected to improve.

According to Fidelity Investments, a 65-year-old couple retiring today will spend, on average, a total of $275,000 on out-of-pocket healthcare expenses.

"Considering that Medicare doesn't cover the cost of deductibles, co-pays or any long-term care that lasts more than 100 days, it's easy to see how those expenses can add up," White says. "Long-term care alone can be a back breaker."

Genworth research reports that the median annual cost for care at an assisted living facility is $48,000. A private room at a nursing home costs more than double that at $100,000 (Source: www.genworth.com/aging-and-you/finances/cost-of-care.html). And on average, AARP Public Policy Institute reports that 52% of those turning 65 today will need long-term care of some kind (Source: www.aarp.org/content/dam/aarp/ppi/2017-01/Fact%20Sheet%20Long-Term%20Support%20and%20Services.pdf).

***3) Myth: You can't afford to save for retirement right now***

**Reality:** You can't afford NOT to save. While conflicting priorities like

*While Social Security used to provide a safety net for retirees otherwise unable to save up, it's estimated that full-benefit coverage could run out as early as 2033.*

mortgage, bills, college savings, etc. can be challenging to juggle, meeting your financial goals in retirement requires planning and saving.

“We’ve all heard the best way to eat an elephant is one bite at a time,” White says. “The same holds true for saving for retirement. There is nothing wrong with starting small and increasing over time as you are able. Consistent saving combined with the power of compound interest can make all the difference.”

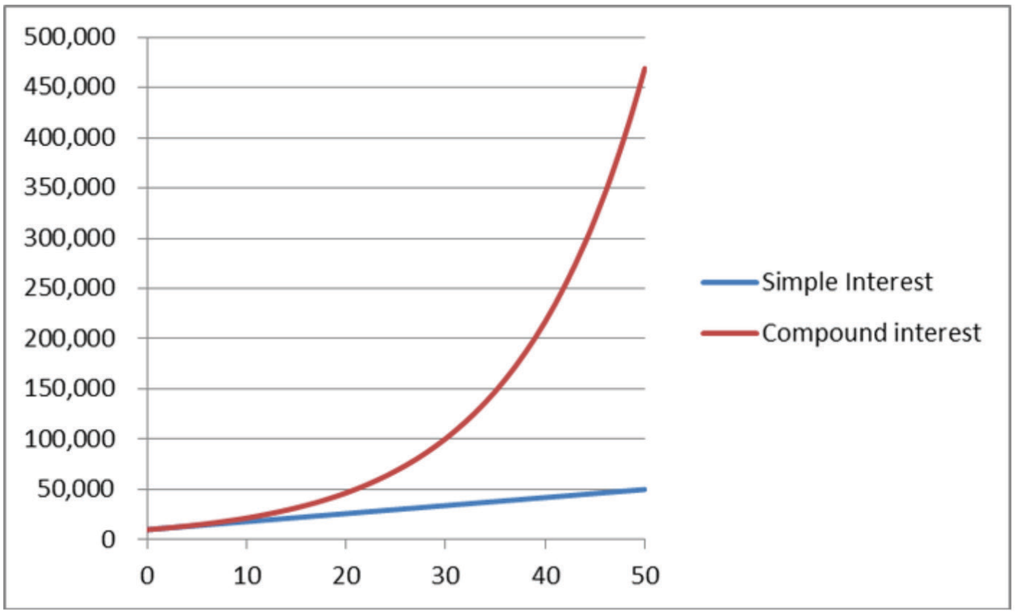
***4) Myth: Small increases to your retirement contributions won’t make a difference***

**Reality:** Thanks to compound interest, a little can go a long way. Consider the following example from The Motley Fool:

Let’s say you invest $10,000 at 8% simple interest. This means that after the first year, $800 is added to your account. In the second year, another $800 in interest is paid, and the same with the third year, fourth year, and so on.

If your investment paid 8% compound interest on an annual basis, it wouldn’t make a difference at first. After the first year, you’d receive the same $800 interest payment as you would with a simple interest calculation. However, this is where it starts to get very different. In the second year, your 8% interest is calculated on your entire new balance of $10,800, not just your original $10,000. This produces an interest payment of $864 for the second year, which is then tacked on to the principal when calculating your interest for the third year.

You may be surprised at how quickly this can add up. At 8% simple interest, your $10,000 investment would be worth $34,000 after 30 years. However, using compound interest, the value would balloon to more than $100,000. Just take a look at how simple and compound interest compare over a 50-year period:




*Source: www.fool.com/knowledge-center/compound-interest.aspx*

***5) Myth: It’s too late to start investing***

**Reality:** Some people avoid setting money aside for retirement because they believe it’s too late. And everyone defines “too late” differently.

“The truth is,” White says, “it’s never too late to start.”

Consider this: Starting to save $500 a month at age 40 with 7% compounded interest grows to more than $600,000 by age 70. Don’t have 30 years until retirement? Saving $1,000 a month with 7% compounded interest grows to more than $175,000 over a 10-year period and more than $525,000 over a 20-year period.

The bottom line is that no matter how close you are to retirement, you can still grow your retirement savings. And the more time your money has to grow, the more compound interest can work in your favor.

***6) Myth: When you retire, your money will be worth the same as it is today***

**Reality:** Inflation is like PacMan, eating away at the buying power of your money. It is a common planning error to either not account for or underestimate that your money is worth less and less every year due to inflation. For example, according to the Bureau of Labor Statistics CPI Inflation Calculator, it would take approximately $1,740,000 today to achieve the same buying power as $1,000,000 in 1993. In other words, if, in 1993, you calculated that you would need $1,000,000 to retire by 2018 and failed to appropriately factor inflation into your planning, you would fall $740,000 short of achieving your desired lifestyle goal in retirement.

As you can see, inflation can have a major impact on meeting your retirement goals.

So, too, can falling for any of the myths described here. Keep the realities in mind (and in practice), and you'll be way farther down the road to a funded retirement.