What is “Opportunity Cost”? And how does it affect our daily lives?

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Opportunity costs are commonly looked at in the business and investment world, but not as often considered in our personal finances. The reality is that we will either "pay interest or pass up interest," and there are many situations where we can build wealth faster through strategic borrowing and leveraging.

The **2 in 1 Self Banking Concept** has increased people's awareness about opportunity costs. **<u>The principle is to measure the cost of paying with cash (or the cost of using one strategy versus another.)</u>**

What could those dollars earn if you kept them in your financial world?

What if you could recapture the dollars you spent on getting something by using a “home base” for your money? (The **2 in 1 Self Banking Concept** does this)

When people **<u>measure</u>** opportunity costs, they:

- Tend to increase their assets and cash flow.

When people **<u>fail to measure</u>** opportunity costs, they:

- Tend to pay cash for everything or keep cash sitting in a bank account earning virtually nothing.

They don't keep their money growing, and they end up with less money as a result.

What does “opportunity cost” have to do with your retirement dollars?
As an example of a qualified retirement plan, you can end up paying out TWICE in management fees and commissions than the amount you're putting into the plan! (Yes, *in addition* to the inflated tax bill!)

The numbers are shocking. Retirement contributions totaling $400k can generate **$575k in management fees**, assuming an average investment rate of return of 6%.

At an average rate of return of 8%, the qualified plan gives up a whopping **$834k in fees***!*

How is this possible?

How can you contribute $400k and pay $834k in FEES!?
(The example assumed 30 years accumulation, 20 years withdrawals, and total plan management, administration and fund fees of 2.5%. Most investors think they're paying less, but that's fairly average when all of the "hidden" fees are found.)

Paying such bloated fees is a common occurrence because compound interest doesn't just grow your money - it also grows COSTS as well.

John Bogle, founder of Vanguard, called this the "tyranny of compounding costs," and the results are staggering to comprehend. It's no *wonder* Wall Street spends billions lobbying the Department of Labor to authorize automatic 401(k) contributions!

Worst yet, even though it's "your" money, you can't actually USE it while others are profiting from it!

You have to follow your employer's and the government's rules on what you can (and can't) do with your money.

For instance, you can't leverage or borrow *against* your money in a retirement account to use as collateral for major purchases or as seed money to start a business.

True, you can sometimes borrow money for certain limited purposes, as long as you pay it back according to "the rules." You can also often withdraw funds and pay the penalties as well as taxes in the process, but in doing so, you'll also be giving up the gains that money could have earned. (The interest your money could have earned is your "opportunity cost.")

And so we have to take opportunity costs into account. It’s a good idea to encourage people to take control of their OWN money so that it benefits THEM first and foremost, not the financial corporations or the government!

“What is the opportunity cost of our choosing to save into a 401(k)?”

What else could we have done with those contributions during our working years instead of dumping them into the 401(k)?

What did we give up by putting all of those eggs in that basket?”

If efficient wealth generation is not possible through a 401(k), the question then is whether there exists a vehicle that will allow us to both accumulate and have liquid access to those funds – in other words, avoid the opportunity cost of whatever we gave up by choosing to set aside our money for future use.

A vehicle does exist which allows us to accomplish both objectives. It’s the concept that the banks have been utilizing all along. It’s called the 2 in 1 Self Banking Concept and it’s worth it for someone to see what it can do for them.

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