SouthCoast TODAY

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By William J. Goldsmith

January 12. 2016 11:58AM

Planning for the time of your life

The New Year is upon us. I hope you had a wonderful holiday season enjoyed with family and friends. As we focus on 2016, our resolutions and all that we hope to accomplish, I have a question for you.

What is most important to you?

I named my company LifeTime Financial Strategies, LLC because time is most precious to me. Without sufficient time, I would not have been able to meet my wife Lisa. Without sufficient time, I would never have witnessed the birth of my son Alex or my daughter Lily. Without sufficient time, I would not have been able to write this article that you are now reading. For certain, without sufficient time, I will be unable to achieve all of the goals I have set for myself and my family. The funny thing about time is that none of us actually know how much of it we will have. While some of us will have enough time to achieve many, if not all of our goals, many others will not.

So, how does this uncertainty impact your financial planning? My philosophy is simple. You hope for the best and plan for the worst. We need to protect against the catastrophic losses, the losses that devastate us or our families emotionally and financially. Catastrophic losses can be different things to different people based on their ages and life stage. While death or disability is never something most people want to think about, the economic loss can be much greater in certain situations.

For example, the economic well-being of a family is never at greater risk than when they have young children. First, all the years of caring for the children are still in the future. Second, the parents have probably not reached their peak earning years. Third, in most cases, the parents have not had sufficient time to build up enough assets that would enable the family to enjoy their current lifestyle if something happened to either parent. A family could have the best investment plan in the world. But, if their income stopped due to a death or disability, then there would be no money to fund the plan going forward and none of the desired goals would be reached. For this reason, it is imperative that parents with young children have the proper amount of life insurance and disability insurance. The proper amount is based on the goals and needs of each family. There is no set formula that applies to all families.

If you are single without children, while life insurance may not be needed, disability insurance should still be one of your top planning priorities since it protects your income which is what makes all the other financial goals in your life possible.

While life insurance and disability insurance are especially important for young families, they are important to people in different situations as well. As your situation changes, other issues can become more important. If you are retired, your primary concerns may focus on wealth preservation, health care costs, or long term care expenses. For example, once retired and no longer earning an income, a significant loss to one's investment portfolio could certainly be viewed as a catastrophic loss if it impairs your quality of life. For this reason, it is so important to understand the investments you have in your portfolio. It is not enough to know you own a bond fund. You need to understand how the manager is investing your money and the composition of the underlying portfolio. Retirees often invest in bonds or bond funds for income and reduced risk as compared to stocks. But, depending on the type, there are numerous bond funds that declined 30% or more in 2008. Now, that is okay if you understand what you own and are willing to accept the risk. It is not okay if you have no idea that this type of loss is even possible. This is just one example of many that can impact someone in retirement.

What if you own a business? You still have all of the personal financial planning issues anyone else faces. In addition, you now have to consider a host of planning issues related to your business and how they relate to your personal planning. For many business owners, the business is their biggest financial asset as well as their primary source of income. For this reason, the business needs to be protected from a catastrophic loss as well. In this case, a catastrophic loss is anything that would cause the business to close its doors or cause significant financial distress. A few examples of a catastrophic loss could include, the death or disability of the business owner, a business partner or key employee.

A catastrophic loss can be different things to different people. The key is to understand what they are for you and how you can protect against them. There is no better time than the present to protect your future.

William J. Goldsmith, CFP®, CLU®, LIA is the President and Owner of LifeTime Financial Strategies, LLC, an independent financial services firm. Bill was born and raised on the South Coast and lives in Middleborough with his wife Lisa and their children. Bill can be reached by email at bill@lifetimefinancialstrategiesllc.com.

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