Success Begins with a Plan!

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Contrary to what many people might think, financial planning really isn't about money. It's about the "life options" that a sound financial plan can make available to you.

The whole concept of financial (and retirement) planning has gotten a bit muddied by focusing too much on things like:

- A specific "date" when retirement starts
- A target amount of money that is needed before one can retire
- Reaching a target pension accumulation or "years of service" milestone
- How long until Medicare "kicks in" to support your health insurance needs?
- When will my youngest child graduate from college?

Of course, these are important questions that need to be answered as part of a sound financial plan, but I find the bigger issue for many people is the lack of concrete, ***non-financial*** goals and objectives that a person or couple wants to achieve during what I call the "second act" of their lives. It may sound like a wonderful idea but can you really play golf every day for say 20-30 years during your retirement? Is travel something that you can do everyday of retirement or, realistically, is it more likely to be a 30-day trip or several, shorter trips over the course of a year? What lifestyle options best fulfill you as a person? These are tough questions even for the most avid golfers and travel-bugs among us.

I stress to my clients that financial planning should not be an anxiety-ridden exercise that reminds them that they are not well-saved, or that college costs are escalating beyond what they think they can afford (although these issues certainly need to be addressed). ***Financial planning should be inspiring.*** Financial planning should be about defining dreams and lifestyle options that are realistic and exciting to pursue. For a 40 or 50-something person or couple, it should be about challenging yourself that life can be wonderfully different and perhaps even more fulfilling than the "first act" of your life that has served you and your family well. I often tell couples that they need to define a "shared vision of the future" that is both inspiring and motivating enough to set in motion the specific actions needed to attain the vision.

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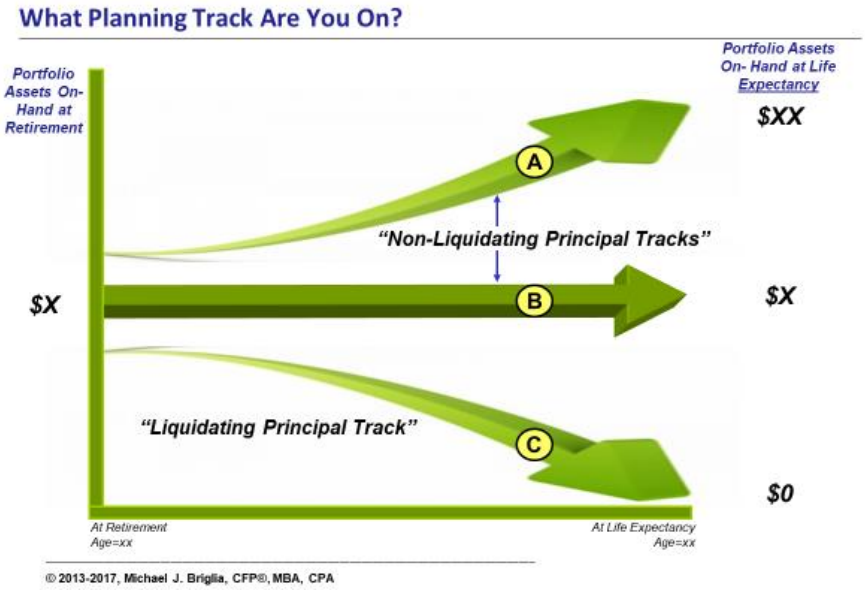
All of this brings us back to the idea that "Success Begins with a Plan". "Success" is all about setting and achieving goals, however lofty or moderate they may be. Some of the best answers I get during client visioning sessions when we discuss goals and objectives of a "second act" are things like:

- "I've always wanted to build furniture"
- "I would love to be an adjunct professor at a university"
- "I want to educate myself in theology and pursue youth ministry"
- "I've had a passion for real estate"
- "I just want to 'give back' more to my community"

Do you have lifetime goals similar to these and a financial plan in place to achieve them? Lifetime goals such as "giving back to society" oftentimes have a financial dimension to them. For example, is your goal of "giving back" a side volunteer activity or one that is more substantial in commitment? Do you have to continue to work to support this goal or are your retirement savings sufficient to support your income needs? When will you start working towards this goal?

A technique I use with my clients is depicted in the nearby chart. This chart is a visual aid that helps define a financial planning "track" you may wish to pursue considering lots of potential trade-offs around lifestyle choices, wealth accumulation and estate distribution goals, health concerns and other important factors. Let's understand the chart in more detail.



First, there's no "right answer" to the chart. Each client's situation is unique and a sound financial plan can accompany any of the alternative tracks depicted. The chart highlights the point that you need a base of "portfolio assets" from which you can draw income during your retirement years until a natural life expectancy (plus a few years for cushion, if desired). As a side note, I often get asked whether a person's home counts as a portfolio asset. Sadly, the answer is usually "no" unless there are options to draw an income from the home via reverse mortgages, rental of an adjacent apartment, etc. Let's assume that these are not viable options for our purposes here.

The arrows in the chart depict the potential paths of asset accumulation or drawdown over time, net of the impact of future inflation. Tracks A and B represent "Non-Liquidating Principal" tracks where earnings on the portfolio asset base, supplemented with other forms of income such as social security, pension benefits or income from employment, are sufficient to offset the impact of inflation and provide for retirement income distributions. Track A earns sufficient income to provide additional build-up of the asset base while Track B is sufficient only to maintain its inflation-adjusted value.

Track C represents a "Liquidating Principal" track where distributions for retirement income exceed interest earnings on the asset base due to higher than expected inflation, a smaller base of assets and/or an earlier retirement start date, higher than anticipated cash flow needs during retirement due to healthcare or other reasons, or a combination of factors.

Once you grasp the factors which influence the trajectory of each of the tracks, you can begin to visualize where your own personal financial situation might fit. You can also begin to understand what financial solutions and products can play a key role in supporting your long-term objectives.

For example, if you've invested in sizeable real estate or life insurance assets which may increase in value over time, you may be very willing to be closer to Track C in the diagram and not worry so much about leaving your children a large stock and bond portfolio. For Tracks A or B, life insurance strategies may also make sense for both transferring and preserving wealth, providing cash liquidity to pay anticipated estate taxes or to help support estate settlement expenses during prolonged settlement periods. Similarly, it is also easy to understand why products such as long-term care insurance can play a valuable role in preserving your wealth and keeping you from spending down your assets too fast, a critical issue for Track C clients.

Lastly, it should be obvious the role that professional asset management can play in the diagram. One of the most daunting issues for retirees is drawing down an asset portfolio for retirement income needs over prolonged periods of time and often during "down" or choppy financial market performance. There are many strategies and tools for protecting near-term income needs while maintaining sufficient exposure to "growth" assets like equities to provide long-term inflation protection. Although it sounds counter-intuitive, professional asset management has a much ***greater*** role to play during the retirement/income distribution years as compared to pre-retirement years.

I advise my clients to first visualize where they think they might want to position themselves on the diagram. Once they've understood conceptually the trade-offs of being on one planning track versus another, the next step would be to put some real numbers behind these diagrams and develop a few alternative planning scenarios. For clients, this is the inspiring part of the planning process. And for a financial advisor, this is the fun stuff!

Hopefully, this brief article demystifies financial planning a bit and gives you a framework for thinking through your own personal financial situation and the menu of potential planning solutions that can help you achieve your definition of success. And since "Success begins with a Plan", set your life in motion with a well-defined financial plan today!

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