RETIREMENT PLANNING

As a Certified Financial Planner™, I believe that no retirement or financial strategy should be implemented without first having a written plan in place.

Imagine sailing from San Diego to Hawaii, for example, without charts and and without first plotting a course. No one would set sail blindly, and then check in 2 or 3 weeks to see where they were, would they? Of course not! Any sane person would know exactly what course they were going to follow and how they were going to accomplish this, and they would know this information ***before setting sail.***

I believe that the same logic and strategy should apply to retirement planning. Every retirement strategy should begin with an in-depth analysis that would include the following:

- Retirement age, either now or a date in the future
- Forecast inflation rate
- Projected portfolio earnings both **before** and **during** retirement. Conservative assumptions are better
- Life expectancy – conservative assumptions, i.e. longevity for the spouses is better
- Are there any windfall sums of money anticipated, for example: sale of real estate, downsizing of residence, sale of business, lump-sum in lieu of pension, inheritance, etc.
- What is the value or expected value of all pensions, rental income, royalty income, business income, Social Security income, etc.?
- Total yearly income requirement, adjusted for inflation both before and throughout retirement. ***The retirement analysis will reveal whether your income expectations are realistic or not?***
- After considering income flows, how much would be required as a withdrawal from savings and investments, and is this realistic?
- Tax-management of retirement income. Controlling the source of the flow of income may significantly reduce the impact of Federal and State taxes. For example, taking all portfolio withdrawals from IRAs and 401(k)s would result in taxation of all this income at ordinary income rates. However, if the client were to take partly retirement account withdrawals and then further support their income need from non-retirement accounts, then this may result in significant tax savings
- Funding for specific goals and needs, such as college funding for children and grand-children, purchase of a vacation home, travel, gifting of assets (both charitable and non-charitable gifts)
- How much risk you need to take in order to accomplish your goals. I find that many clients take far more risk than they need to, as their goals are very conservative relative to their resources. Others may have more ambitious goals and they have no choice but to take on more risk, unless they are willing to downsize their expectations. No two clients are alike.
- Long-term care insurance – usually this is recommended, but not always

Once we have a plan in place, then it is our duty to regularly revisit the plan to make sure that we are still on course. Needs and circumstances change, and we need to be able to adjust the plan, within reason.

I love during client reviews, if I am able to tell clients that they are well above where our conservative projections would have them at this time, and that they could increase their income withdrawals or perhaps take a lump-sum “bonus” this year.

I always execute my plans using what I believe to be very conservative assumptions.

I would prefer that my clients be pleasantly surprised due to our planning working out better than expected, rather than the clients being absolutely shocked because things didn’t work out as hoped!

Mike Sztrom, Certified Financial Planner™