

Retirement Income Review ▼

Bridge the gap between retirement income and expense



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Retirement planning is a lifelong endeavor and is part of every phase of a client's financial plan – through accumulation, preservation, distribution and transfer. Retirement Income Review is a key piece to this critical part of financial planning. Knowing how to discuss retirement expenses and income sources with clients and prospects can have a dramatic impact on an advisor's practice and the lifestyle of his or her clients.

With increased attention on declining asset prices, and historic levels of volatility in today's financial markets, financial advisors have a unique opportunity to add value for their clients. It's never been more important to help clients focus on their longer-term future retirement income goals. The Retirement Income Review is a process that can be employed to help clients with their long-term financial strategy, and assist them in their retirement income planning. Including The Retirement Income Review in your client meetings, as part of an overall comprehensive approach to financial planning,

can help ease some of your client's worries and improve your client retention in a negative market cycle. Increasingly, it will become a necessary component of an advisor's practice in order to remain competitive and distinct.

We are seeing the financial services industry become more focused on what is often termed "The Next Frontier – Retirement Income Planning", and the affect this will have on financial planners, advisors and their clients. A shift from accumulating and managing assets, to a more predictable approach to the distribution of, or income from, these assets is now more of a concern in the minds of Baby Boomers. Growth of capital will always be important to keep up with inflation and taxes, but more and more clients want to focus on their future income at retirement and the best way to make it happen. Traditional asset allocation is now being complemented by product allocation, especially with the menu of guaranteed retirement income product features now available to advisors and their clients. It's important for advisors to stay abreast of products and features that fit these long term retirement income solutions, in an effort to maintain their value to clients.

People customarily used to ask "at what age do I want to retire?" Today, many people are asking "at what income level can I afford to retire?" The Retirement Income Review can help answer this question. It starts with an assessment of your client's expenses, both *required* (fixed) and *desired* (lifestyle). Ask clients to analyze how and where they will be spending their money in retirement. What kind of lifestyle do they envision for themselves? Will they work part-time to supplement

their income, and for how long? Do they want to completely stop working, creating a need to replace their entire income? It's not too early to start having these conversations with your clients. Additional discussions about a safe portfolio withdrawal rate, the risk of longevity, the sequence of investment returns, and health care expenses are also beneficial in focusing on the need for retirement income planning.

Conducting a Retirement Income Review with clients and prospects within 10 to 15 years of retirement helps make it possible to consider and implement plans that can provide additional income streams at the correct time. Reaching out to clients and prospects in this critical "pre-retirement" phase will help to position you as an advisor who understands their complex issues and the most effective solutions that can be implemented prior to retirement. In addition, be ready to review the critical decisions that will need to be made in the next 10 to 20 years, including:

- Social Security payout choices
- Corporate or government pension decisions
- Real estate/housing issues
- Management of retirement assets
- Estate planning and beneficiary decisions
- Required Minimum Distribution (RMD) calculations for retirement plans
- Health care and health insurance
- Long term care and life insurance decisions
- Dependents within the household (will your clients be raising grandchildren or have adult children return home)

During The Retirement Income Review, it's important to consider all of your clients' possible future expenses and separate them into *required* and *desired* categories. *Required* expenses are basics, or "must-haves" that include housing, food, health care, auto, utilities, insurance and taxes. *Desired* expenses are lifestyle-oriented and include vacations, travel, hobbies, club memberships and gifts. Some clients may want to include vacations in the *required* category and I certainly can't argue too strongly with that point of view.

Next, determine the *required* income gap by subtracting the future guaranteed income sources that should provide a predictable income for life, including Social Security and public or government pensions from the *required* expenses. Once this gap is known, it becomes possible to design a plan to help close the gap, with products that offer cash flows that can often continue for life. Annuities with guaranteed lifetime income benefits are among some of these options. It is important, however, to remember that all guaranteed features are

dependent on the claims-paying ability of the issuer. It is this type of planning that helps clients understand their various options so they are able to make informed decisions.

Desired income goals, which might also have a gap, can be met with systematic withdrawal plans from traditional managed portfolios, mutual funds, bonds and dividend paying stocks. It's important to remember all investments are subject to investment risk, including the possible loss of principal; and these sources of income are not as predictable in the same way as pension or products with a guaranteed income features. Yet, they do provide the additional benefit of being more liquid and flexible than an annuity, for example, that is subject to withdrawal fees and surrender charges.

Reliability of Income may become the new ROI. By starting early, clients will have time to make changes to help close the gap. Once the advisor begins to implement The Retirement Income Review, it needs to be revisited and updated annually with the client in order to stay current.

The 10 year period just before retirement is the early part of the transition phase and is very significant. During one's early working years, the accumulation of retirement assets through individual savings and investments or company retirement plans can generate half or more of the total retirement assets needed. If investment returns on retirement assets are sub-par during the last 10 years before retirement, the entire nest egg could be at risk. An advisor with the right knowledge and expertise in this area will play a key role in their clients' financial security.

By putting into place a systematic process for retirement income reviews, you can help your clients navigate through changing marketing conditions, provide your clients with a sense of direction in their financial planning, and help solidify the client-advisor relationship for ongoing retention and referrals. ♦