

*Why Retirement Planning is Hard –  
The Three Main Reasons*

***This presentation is designed to teach an advisor the steps to create a “flip chart” or “yellow pad” conversation regarding retirement planning. This PowerPoint presentation was not graphically designed to be displayed as a seminar slideshow.***

Retirement

There are three main questions people have concerning retirement. Those questions are the three reasons you need a retirement road map.

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How much? Enough?*

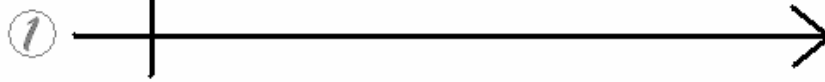
When people think about retirement, they usually ask themselves, “How much do I need?” or, “Do I have enough?” High net worth individuals want to know how much they need to determine what portion of their assets can be used for other purposes, such as investment opportunities, charitable gifts, or for their family and heirs. Others just want to know if they can afford to retire. Both questions are the same—what will my retirement cost?

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There are three reasons or specific questions why people cannot answer this fundamental retirement question for themselves.

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The first reason is that retirement can potentially last a very long time. It may last 15, 20, 30, or even 40 or more years! It is not unusual for someone to retire at age 55 or 60, and it is not unreasonable to assume that they may live until 90 or 95. How do you plan for such a long period? Retirement for many people will last longer than any single employment during their lifetime.

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When does retirement start? In our grandparents' day, retirement started with a retirement dinner, a gold watch, and leaving the factory or office and not returning on a daily basis. Today, even the start of retirement can be "fuzzy." Is it the day the husband retires? The wife retires? When they have both retired? Is it when you are eligible for Social Security? Or, is it when you start taking Social Security? Is it when you quit full-time work and cut-back your hours, or is it when you stop working altogether? Regardless of when it "officially" starts, it could last a long time.

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It is easier to think of retirement in phases. The first phase is the **Initial Years**. These are the years immediately following your retirement. These years are very active with you doing all those things you've put off until retirement. You travel more; you spend more time on hobbies and sports like golf and tennis. You become more involved in charitable activities. You spend extra time with your grandchildren and family. You are very active.

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As the newness of retirement fades, you move into the phase called **Seasoned Years**. You slow down some in this phase with less travel, more time at home with family and friends—fewer activities in general.

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The next phase of retirement is the **Matured Years**. These years usually reflect considerably less activities, often due to health concerns.

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At some point, you lose your life partner. The following years are the **Survivorship Years**.

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By using phases, you can reduce this long period of retirement years into shorter phases of 5 to 10 years. What do all of these phases have in common? **Activities.** Each of these phases were defined by the common activities or level of activities during that phase—very active, less active, considerably less active. Activities are the key to the phases, and the phases make the number of years manageable.

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An additional benefit of activities is that they can be associated with costs. This helps us place a cost with each phase. By knowing the costs associated with the activities, it is possible to make a good estimate of the extra costs during a phase by looking at the expected activities of that phase. Of course, we can only estimate what these activities cost today, not what they will cost due to inflation during retirement.

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If we talk in terms of today's dollars, we understand the costs. We know what the costs for similar items are today and what portion of our incomes are used for related activities. We can let the computer do the calculations as to what the probable costs will be in the future. We'll definitely take the affects of inflation into account; we'll just let the computer do the math.

Using phases to break retirement up into manageable periods, addresses the long period of time covered by retirement—the first reason or question that makes retirement planning difficult.

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The second reason or question that makes retirement planning difficult —

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*Today's*  
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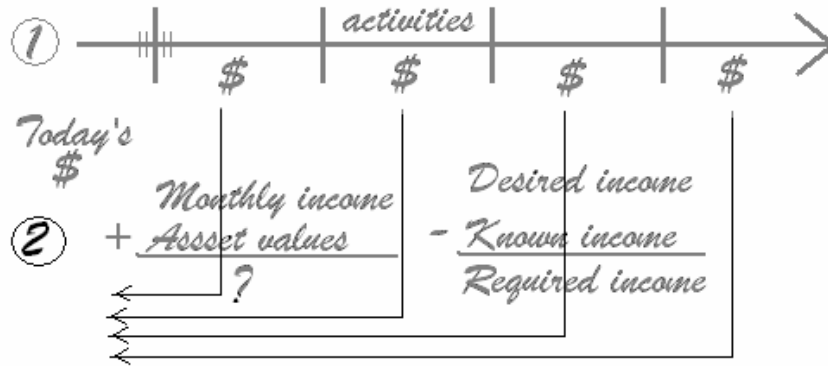
$$\textcircled{2} \quad + \frac{\text{Monthly income} + \text{Asset values}}{?}$$

--is that our retirement information is given to us in two very different forms—as monthly benefits, such as Social Security benefits, estimated pensions, the monthly benefits provided by our 401(k) Plans, etc. And, then we are told to just add to that the values of our retirement savings, and any other assets or investments we have designated for retirement. Simple? It's like adding apples and oranges! Getting a handle on this is what this second reason or question is all about.



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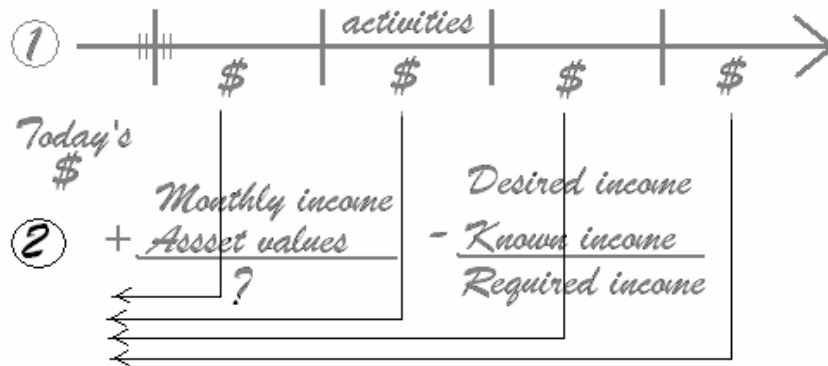


The third reason or question that makes retirement difficult -

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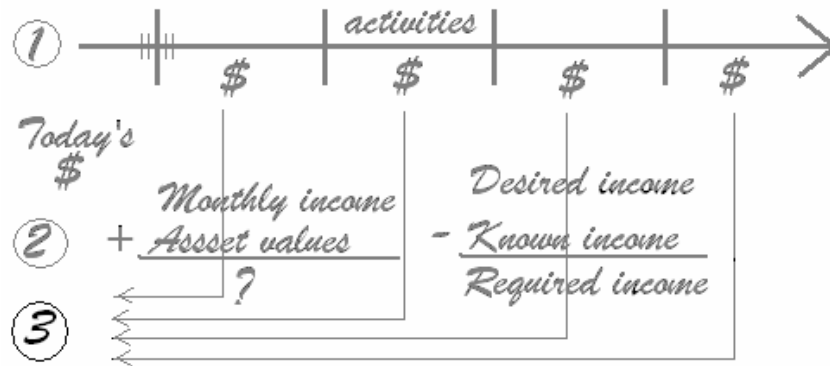


Is that it is not clear what amount you need today to provide for the remaining retirement income needs.

One of the other factors that the retirement phases provide us is the time horizon for each phase—when the required income will be needed. If we look at the remaining required income needed for each phase, and bring it back to today, we know what the value needed today is to fund the remaining income needs of that phase. Doing that for each phase, gives us the amount needed today for our remaining retirement income needs.

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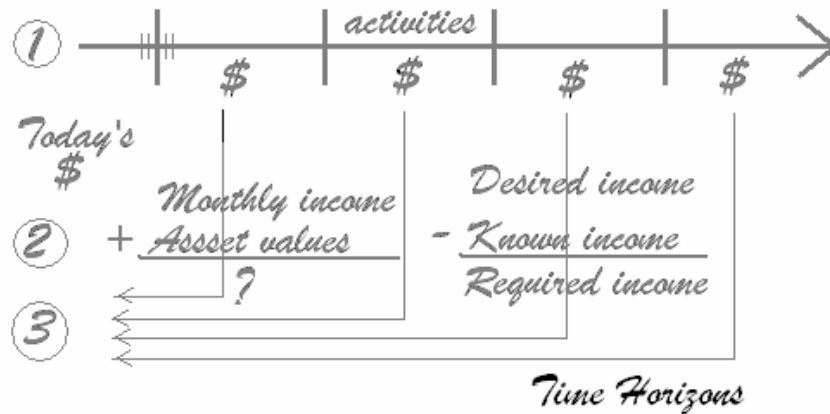


This is the one number needed for retirement planning. You need one number to compare with your existing retirement savings and investments. Now you can easily see that you have enough, or how much more is needed. With this one number, you know if other assets, such as the equity in your home will be needed.

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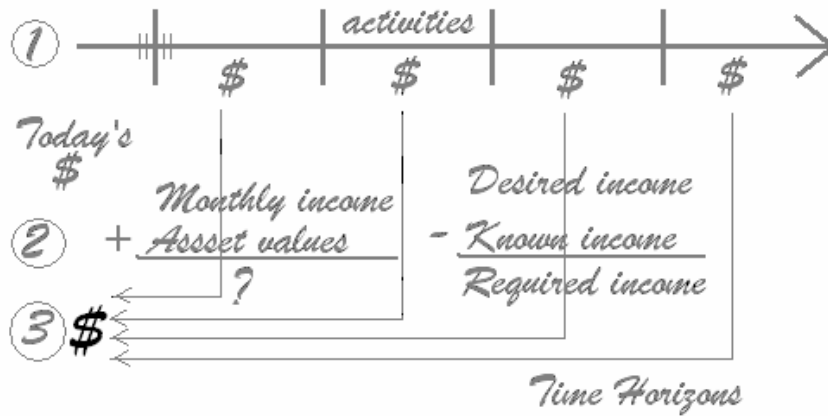


The time horizons provided by the phases, help us develop an investment strategy. For investments used to fund phases that do not start for a number of years, we can be more aggressive. For phases that we are paying income, we have to have very conservative investments. How we plan to invest for each phase allows us to calculate the value today of the amount needed to provide the remaining income—the one number we were looking for.

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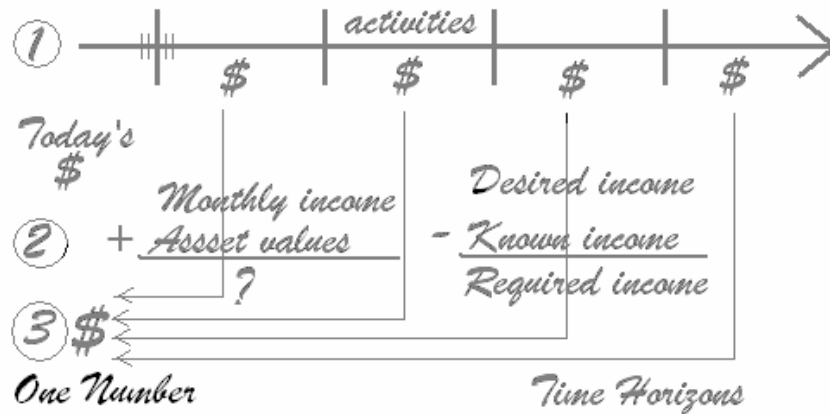


One number with which we can compare our assets to determine if we have enough. One number to determine if we have assets available for other purposes.

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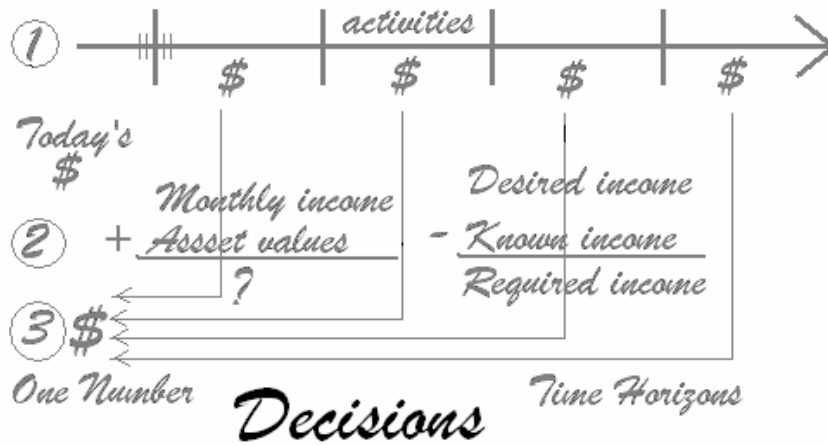


One number that indicates we need to think about using other assets for retirement—perhaps using the equity in our home, or down-sizing. We might not have planned to use our home for retirement, but for most baby boomers, that is their largest equity. We can also consider delaying retirement or continuing on a part-time basis. This is the number we need for evaluating options and making decisions.

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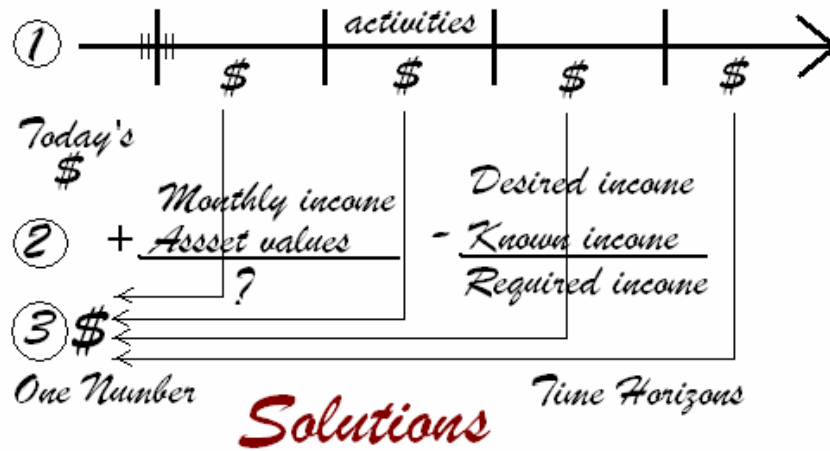
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What have we accomplished by answering these three questions? We make it possible for someone to make decisions—decisions about their retirement plans. This process, on a year-by-year basis gives a “retirement road map” that shows where you need to be each year to have a secured retirement.

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Decisions that provide directions for your retirement road map. And, your retirement road map provides you solutions for your retirement journey.

So with what we now know about the pitfalls of retirement planning, let's use Retirement Road Map to create customized retirement solutions for you.