'Am I going to run out of money in retirement? How do I know?' a Case Study

The above question or some form of it is a question we get from about 8 out of every 10 clients that come into our offices. 'Running out of money' is a concern due to many factors including: much longer life expectancies than our parents, the vanishing of the defined benefit pension plan as a typical retirement benefit, large entitlement programs such as Social Security being severely underfunded, all happening in a historically low interest rate environment.

Adding to their concern and anxiety is that the current 'Boomer' generation has seen some very dramatic events take place within the past 20 years. The 'Tech Wreck' of 2000, 9/11 and the ensuing Recession, The Financial Crisis of 2008, and the downgrading of US Government Debt in 2010. Some clients that we meet for the first time have a vast majority of their holdings in cash or equivalents, many since the Financial Crisis 2008, which is 7 years ago!

How do we address this with our new clients? First, we assess what investment vehicles the clients' possesses, such as: 401k, IRA's, Mutual Fund, Stock Holdings, Annuities, Pensions and cash or bank accounts. We also assess their risk tolerance by using various and standardized questionnaires that assist in gauging their comfort level as it relates to investing. We will use Profiles TM Software to make certain assumptions about existing assets and entitlement Programs such as: Rates of Return on existing investments, growth or lack of any growth on Social Security or Pensions. The software provides a tool in which both the advisor and client can initially assess their current status. They will either be 'on track' given the variables, or 'off track'. Regardless, of either scenario, progress relative to the client's various goals can be consistently monitored at quarterly or annual scheduled client meetings.

Example: We have one such client named (Jill) and (John) who have been clients for many years. Jill worked for a large advertising agency for many years and John has his own small business. Though they had been very good savers, Jill's

job changed and she was eventually downsized in her early 60's. Jill's income was reduced and she became very concerned and anxious about their future income stream during retirement. Though they had no pensions, Jill and John were generally more conservative investors and had opted for some guaranteed streams of income using annuities. They also had many other investment vehicles as well. During quarterly reviews, overall reminders of these investments did not comfort the client. We could still sense a level of anxiety concerning future income.

Using the Profiles Software as a tool, we were able to demonstrate graphically and numerically at our quarterly meetings; that based on their retirement income goal they would garner almost 60% of their retirement income through stable forms of income, such as: Social Security and the annuities they had opted for. The balance of the goal (40%) would be achieved through a distribution strategy that we have begun to work on with the client. The end result is that the constant review of these projections, helped the client put into perspective where they stood relative to their income goals. The graph which we use as a tool depicts their income (from stable sources and variable sources) during their retirement years and has helped reduce Jill's anxiety about 'running out of money'. Ultimately, it is helping them achieve their goals.

****Note that the above is an actual client the names have been changed. Note that annuities can be complex vehicles and do not pertain to every investor. The above case should not be used as an endorsement to use such an investment vehicle.***

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