



## **Don't Let Bad Retirement Planning Turn Your Client Into a Girly Man**

Tips revealed on how CPAs can really help their clients.

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Would you believe that a man who flew over 100 combat missions over Vietnam could be reduced to a sniveling girly-man when confronted with the prospect of retiring from his firm? You should.

Jim courageously flew over 100 combat missions in Vietnam during his tour of duty. He served our country with distinguished honor and courage. Like most of our brave soldiers, he never hesitated in the face of the danger he faced everyday. It was his job.

But Jim was paralyzed with fear when faced with the reality of retirement.

What was Jim so afraid of? After all, he was worth over \$4 million in investments and real estate. On top of that, he had a generous pension. Surely, he had nothing to worry about ... right?

Not right!

### **Why 401(k)s Are Not Enough for Retirement**

Although Jim did have a significant asset base and a generous retirement income, he and his wife had become accustomed to living on their combined salary — about \$175,000 a year. Like many of us, the only savings vehicle they had was their respective 401(k)s.

When I met Jim and Vivian, we worked together to calculate their monthly spending needs. It turns out, they needed every dime of that \$175,000 to finance their yearly spending needs. Those of you living in Southern California will understand that this is not an extravagant lifestyle.

While Jim is alive, the couple will receive \$100,000 in pensions and Social Security. So problem number one is how to make up for the \$75,000 deficit.

I mentioned before that Jim and Vivian have over \$4 million in assets. Of that, \$2 million is in real estate that doesn't generate much income. Most of the balance is divided among Jim and Viv's IRAs and retirement accounts. I explained to them that the \$2 million could easily generate the \$75,000 they need to make up the deficit.

### **What Are Your Options?**

First, we examined the alternatives. Real estate was one alternative, but we all agreed they had sufficient assets invested there.

#### *Bonds*

We then discussed bonds. Many retirees get ensnared by the seductive promise of bonds — safe income.

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The problem of course is inflation. Jim and Viv could put \$2 million in bonds and even if they earn only five percent they will generate \$100,000 in yearly income. That seems pretty good if you only need to invest for a few years. But let's look at this from a longer perspective. If they do invest all their money in bonds, the income will stay fixed at \$100,000 — assuming none of the companies they invest in goes belly up. Twenty years from now, will Jim and Viv's deficit still be \$75,000? Probably not. They will need a lot more. Over the last 20 years, inflation has averaged 3.1 percent. So if they spend \$175,000 a year now, in 20 years, they'll need over \$320,000 just to maintain their lifestyle.

That's right. 320,000 smackers! Oh, and this assumes they don't start spending more money in retirement. I've seen others suggest that clients spend 25 percent less when they retire. I don't know what planet these people are on. My experience is that people spend more during retirement than when they were working — even if they have paid off their mortgages.

Think about it. We spend more money on the weekends than during the week. Agreed? Why? Because we have the time to do it. Well, when your clients retire, every day is Saturday. And the malls are open late!

So, even though the bonds look attractive today, because of inflation, they are not a complete solution for anyone planning on living more than 10 years.

Studies show that if your clients need income and need that income at least to keep pace with inflation over the next 10 years or more, they need some equity in their portfolios.

Let's take this a step further by looking at an extreme example.

#### *Other Investments*

Assume your client is 75 years of age. Further assume this person is single and has terminal cancer — he has only one year to live. Should the money be invested in bank deposits or bonds? If the unfortunate client is going to spend all the money before he dies the answer is yes. But if the client plans on leaving money to other family members or friends — the answer is likely no. If this client doesn't need the money and plans on leaving it to younger and healthier heirs, he should invest it based on their needs. The client may not be around but his money may be — for 30 or 40 more years. By simply earning a few percent more over that time period, the benefits to your clients' heirs will be tremendous.

I am suggesting that you start thinking about the longevity of the money rather than the longevity of the client when you make suggestions about how to allocate your clients' portfolios.

The long-term benefits of this are self-evident — much greater potential for capital growth and higher income. Of course long-term plans are great but when Uncle Murray sees your great equity ideas turn his \$1 million into \$500,000, nobody is going to be happy.

#### **In Closing...**

So the big problem with this is that equity investments fluctuate in value — sometimes to extreme and unpleasant levels. Investors in equity take on the real risk they could suffer catastrophic losses. It is vital that you help clients avoid these mistakes. For a free white paper on how to help your clients with this problem contact [me](#).

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**Neal Frankle** is the author of *Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity*. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, to do the same thing for their clients. Contact [Neal](#) to get a free copy of his white paper on how to take the market's temperature and avoid catastrophic losses.

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