Retirement

# Achieving a State of Independence in Retirement

**by William J. Supper, CFP®, and Christopher R. Cocozza, CPA, J.D., LL.M.**

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On March 23, 1775, Patrick Henry boldly stated, "Give me liberty or give me death!" The American spirit was captured in just seven words. Today our clients demand, "Give us independence during retirement!" But how do our clients define independence?

Independence during retirement can mean many different things to different people. For most, it is an opportunity to pursue their passions: some want to travel the world or move to their beach or lake house. Others want to golf or fish away their golden years, start their own business, or work for a nonprofit organization.

Throughout their working years, a mother or father may have missed their son or daughter's sporting events and recitals. In retirement, these parents often try to attend every event for every grandchild to make up for missed memories. To properly advise our clients, we need to get a firm grip on their plans for enjoying their newfound freedom. What does retirement mean to them?

## Total Life Plan

When developing a financial plan for our clients, regardless of age, we like to strategize for a total life plan. To determine the best course of action for saving today, we need to understand what the client plans on accomplishing during each phase of life, especially in retirement. Typically, the first several hours of consultation are spent listening to determine a client's goals, hopes, and dreams for them and their family.

Once we are able to determine the planned uses of a client's retirement nest egg, we then determine how large that nest egg needs to be and how to build it. However, as you may have experienced, this process is often difficult and time-consuming since most clients have not spent a meaningful amount of time asking themselves these important questions; instead they have only considered retirement in very abstract terms. This upfront time is well spent because, like sailing across the ocean, setting the right course in advance is critical.

During the initial interview stage there are nine questions we suggest that every client consider:

1. Where would you like to live?
2. How do you plan to spend your time—what will you do?
3. How do you envision your relationships with children, grandchildren, and friends?
4. How will you cope with medical costs, especially before Medicare kicks in?
5. Will you work part-time or full-time? Will it be paid?
6. How will you continue to spend and save money?
7. What is your family's life expectancy? Mortality risk?

8. Have you considered estate and legacy planning?
9. What are your plans for asset protection and risk management? Have you considered long-term care issues?

Where Would You Like to Live?

The answer to this question is as varied as one might expect. We should first determine how much our clients can realistically set aside to spend on a retirement home. But many issues arise when a client wishes to retire to a place they may not be able to afford. This situation often requires us to advise the client that their dream destination might not be within their financial reach. Together we try to determine whether this can be accomplished.

For example, your client wants to live their golden years on the beaches in San Diego but does not have sufficient resources available. We may suggest alternative locations with similar lifestyle features, but with much lower costs. Certainly low-tax, low-housing-cost areas are the easiest sell. In this situation, Florida may be a nice alternative. We have found that client reticence is minimal if you can show how much better (such as a bigger condo, better dinners) the less expensive alternative may be. In general terms, for every high-end retirement destination, there is a lower-cost alternative to be found if you look carefully and in the right places.

## How Do You Plan to Live?

The key word here is passion. During this portion of the discussion, we attempt to explore what currently makes the client tick and what will start their engine in retirement. If there is a large disconnect between these two answers, we seek to determine if the retirement dream is also a realistic one. A city slicker with a passion for drinking wine may have a difficult time tending a vineyard in retirement.

Once we pin down their realistic retirement passions, we encourage our clients to be prepared to pursue them. Those who have had the most successful retirements often have also been the ones who have been able to follow their passions (such as spending time with children or grandchildren; or, like Bill Supper’s mother, working at the local hospital so she can stay up on local gossip).

## Do You Plan on Working?

Very often a few more years of work can solidify the prospects of a dream retirement. When we are faced with a client whose financial situation does not match their retirement expectations—think Italian countryside or bust—we paint a picture that clearly shows that their retirement destination is affordable only if they extend their working careers by a few years (typically three to five). Another alternative, particularly if some of their current skills are in demand in their retirement destination, is to work part-time during early retirement. Part-time employment can be made a bit more palatable if it is near a client’s favorite golf course or beach.

As we know, for some, work truly is a four-letter word, but for others it is a source of great pride and self-worth. One particular success story is about a client who is in his early seventies and still very active. His decision to work was simple: he looked around at his friends and noticed that those who stayed sharp and vibrant were the ones who stayed engaged. He continues to work part-time at his family business while still finding time to help his alma mater and watch his grandchildren play tennis. We often share this story with other clients to make it clear that work can be a rewarding part of retirement.

## How Will You Continue to Save and Spend?

Many clients have never had a formal budget (against our best advice) because they lived off of their rather large paycheck and saved the excess, if any. We attempt to make it clear to them that in retirement, the ballgame changes, and a budget is no longer optional.

Perhaps the area in which we find most clients lacking vision is in their failure to recognize the need to invest for the long term. Very simply, if someone retires at the age of 60, they have a greater than 50 percent chance of living another 26 years, and they may live much longer. We typically model to age 100, unless there are compelling health issues that would lead us to plan otherwise.

Although a very conservative stance, we always try to avoid the good news-bad news conversation: “The good news is that you are a healthy 90-year-old. The bad news is that your nest egg no longer exists.” With such a potentially long life in retirement, our clients need to maintain a growth component in their portfolio to ensure that it lasts for the long term.

## Asset Protection and Risk Management Issues

One issue often overlooked is asset protection. We find most clients are well advised on the asset protection structures that have some estate planning benefits (such as trusts and family limited partnerships); for the average person, however, there is not enough focus on the potentially disastrous effects of a long-term illness. Long-term health care should be evaluated because there is a greater than 50 percent chance that even the healthiest retiree may eventually need long-term care. We believe a review of long-term care insurance is a must for every client. Sufficient coverage and the right coverage will help ensure that medical expenses do not wipe out their hard-earned savings.

As financial planners, we are in a position to help our clients achieve their own vision of independence. Although thorough and often painstaking discussions are needed to decipher our clients’ visions, the results can be quite encouraging. These in-depth conversations will allow you to determine the financial resources needed in order to help your clients reach their desired state of independence.