PacificCPE

COURSE
40857A

Retirement Planning Strategies for Client Success

Retirement planning looks different for every client, and effective advice starts with understanding what retirement actually means to the people you serve. This course examines the core concepts and strategies financial planners use when guiding clients through retirement preparation, from accumulation through distribution. CPAs and tax professionals will gain practical tools to address common retirement planning questions and help clients make decisions aligned with their personal goals, timelines, and financial circumstances.

CREDIT HOURS 2 | FIELD OF STUDY BUSINESS | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify the characteristics of various retirement plans.

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Chapter 1: DISPENSING ADVICE ON RETIREMENT PLANNING

Chapter Objective

After completing this chapter, you should be able to:

- Identify the characteristics of various retirement plans.

So, what does retirement mean today? What will it mean in the future? Will retirement be based on myth or past experiences that we have seen employed by the generation before us? Will we retire once, then again and ultimately again? To sum it up as in previous chapters, "This is not your father's Oldsmobile!"This chapter is going to focus on the strategies that need to be discussed with the client to ensure that the client is maximizing the planning necessary to have a successful retirement (whatever that means!).

Defining Retirement on Your Clients' Terms

- Shift in the Definition of Retirement Planning
- The Stages of Retirement
- Retirement Needs Analysis
- Accumulation Stage
- Qualified Plans
- Personal Retirement Plans
- Nonqualified Plans
- Conservation Stage
- Distribution Stage
- Social Security

There is so much discussion within our profession on this subject. Everyone has very definitive opinions. I asked some of the leading experts in our industry about their thoughts on retirement planning. All continue the initial discussion above with some very defining thoughts.

SHIFT IN THE DEFINITION OF RETIREMENT PLANNING

"The biggest fundamental shift we will see is in the concept of retirement. That's going to go away from retirement and toward financial independence. Work would be optional. It will be based on what you'd like to do. In the past, retirement was based on the fact a worker could not work anymore

because of that individual's obsolescence. Clients would retire from something with age 65 artificially set when the life expectancy was perhaps close to that age," says Michael Kitces.

He goes on to illustrate his point. "For example, a client retired from the factory because of his obsolescence of simply not being able to do the job any longer. A similar scenario was had with the family farm whereby the parent had enough kids to take over the farm, so the parent didn't have to do it anymore. What do we do with all the people who worked in prior industries? Do we retire them like obsolete equipment?"

"Retirement is an outdated notion. Clients need to have flexibility to keep their options open as many more clients will be working longer," says Wade D. Pfau, PhD, CFA, RICP, Professor of Retirement Income, The American College of Financial Services, King of Prussia, PA.

Bill Carter agrees with Pfau and adds, "Much of the discussion centers around where you are at a particular stage in life. I have clients in their 30s and 40s who specifically have told me that they never plan to retire and then they turn 60ish and they begin feeling burnout and start to think differently. Even so, in today's world, retirement could mean retiring from one venture and entering a new one. Most of my clients who retire want to be involved in giving back something to the community."

Carter goes on to say that people need to "retire to something" and not "from something." He has seen clients experience clinical depression as a result of not thinking it through properly. He sees many retirees travel. Compared with previous years, more of his clients are spending a greater percentage of their money during their lifetime. He adds, "I have seen clients retire for a few years and many of them ultimately come back. The only ones I don't see coming back are golfers!"

"For most clients, retirement is their most expensive goal, but not their only goal," says David M. Blanchett, Ph.D., CFA, CFP®, head of retirement research for Morningstar's Investment Management group. He says, "It's hard telling a 35-year-old that they really need to start contributing and perhaps maxing out their retirement contribution. 'Reshaping' is the way I describe it. Retirement needs have to be considered at the beginning of the journey, not at the end. What happens is that clients initially tend to focus on more immediate goals, such as paying off student loans, buying a house, saving for college, and establishing an emergency fund. Either way, we need to help clients become better savers."

"Historically, Baby Boomers played to traditional retirement, such as retiring by age 65," says Kitces. "Gen Xers followed a similar path even though they would prefer not to do that but deal with it, and Millennials have a totally different view. They say, we'll get meaningful work in our 20s, so work can be flexible in my 30s. Their worldview is that they won't be a generation that slaves away in a bad job(s) till retirement and will make radical view changes," says Kitces.

As part of the Baby Boomer generation myself, I had the conventional framework of retirement at the traditional age as well. The new norm says something otherwise. To quote the great philosopher

Yogi Berra, "It ain't over till it's over!" As long as our clients have reason to work, explore, and contribute back to society, the choices they pursue in retirement will allow them to experience a new and exciting direction focused on personal achievement and ultimate satisfaction.

"The human capital of saving for retirement will transpire into a new retirement, which will be comprised of vision and goals one can inspire to afford the retirement life of luxury. Life experiences change during retirement where many people are not as happy during this stage because this is not what they encountered, due to increased social isolation, increased divorce rate, and increased health care costs. Further a new generation will not wait for a particular time, such as age 65, which is an artificial goal, and do things sooner, when they can afford to do so, say at age 50. This is not the world we live in anymore," says Kitces.

"Squaring the curve," as Kitces calls it, is where we stay healthy to max out our life span of perhaps age 110. He adds, "You won't need to plan for many mini-retirements and career changes, whereby you may have to go back to school and learn new ways and techniques for doing those future things you have an interest in. You'll plan for meaningful work for a second, third, or fourth career in limited cycles."

It's interesting how different generations view retirement. As you can see from the above, there is no one way of looking at this. Kitces comments, "Generation Z has completely different expectations which have been defined by the crises they have lived through, such as Coronavirus, Great Recession, and 9/11. Their mantra is that life is short and not working for the man for 30 years."

THE STAGES OF RETIREMENT

The three stages of retirement are the accumulation, conservation, and distribution phases. The accumulation phase is how we grow the nest egg. We will go through the different types of plans to see how this is done. The conservation phase is once the funds are in the plan, how do we manage them for great success? Many of these principles have been covered in the investment chapter (Chapter 1 of course 40856A). The distribution stage determines what and how we can access or withdraw funds. Determining the inflows that will exist at that time will determine how much money will be needed to withdraw, factoring in required minimum distributions (RMDs) or just a *liquid*ation of some of the plan's assets. Lump sum and different annuity-type options exist here.

Most clients will not have sufficient funds to automatically make them ready for retirement. And if their objectives are pretty strong, then we need to help them figure out what needs to be saved today to accomplish this largest objective.

RETIREMENT NEEDS ANALYSIS

As stated above, with the definition of retirement changing constantly, we need to assist our clients each step of the way to make sure they are being covered currently and are not up for any surprises.

Since life expectancy is increasing dramatically, the numbers will continue to get more difficult. The longer the client waits to begin saving, or taking this process seriously, the tougher it's going to be to achieve what they want during this possibly "undefined" period.

A retirement needs analysis needs to be carried out initially to manage the client's expectations of hitting their marks – whatever they are. This analysis needs to be revisited each year during the monitoring stage of the financial planning process.

Rattiner's Secrets

One of the most effective tools I use when working with clients is the development of a retirement cash flow analysis that shows the client where they will be at retirement and how it will look through retirement. It is set up like this:

Start: Beginning balance

Plus: Additions

Subtract: Withdrawals

Equals: Ending balance

I am a huge believer that when people see things in writing, they get it! They follow along. All of my Fast Track classes have important concepts, highlights, and numbers written down, summarized, and flowcharted on my infamous whiteboards. I do the same thing here with clients, usually in print, but also on my whiteboards using different colors to highlight the many cash flow projections, but specifically retirement. Included are rates of return and inflation from the overall investment portfolio projections.

For example, adjusting the numbers annually, if the clients have $500,000 at age 65, expect annual additions of $60,000 from Social Security, retirement plan income, after-tax investment returns, and other income as additions, subtract out $96,000 from fixed expenses, discretionary expenses, taxes, and other expenses as withdrawals, thus leaving an ending balance at age 65 which then becomes the beginning balance at age 66. I do that analysis by year and see where it goes by age 100 (the figure I use as life expectancy unless instructed otherwise). If, for example, the moneys hypothetically last through age 75 and then a "0" balance in red appears, I ask the client what they think they wish to do at that time. I'll then say to the client, "No worries, just call up the children and see which one wants to take care of Mom and Dad at that time and tell me how it works out." They get the message real quick!

Rattiner's Secrets

As an overview to facilitate student and client understanding, one of the examples I use in my Fast Track classes is how to prepare a "retirement needs analysis." This essentially shows how retirement will need to be planned today through end of life. The goal is to figure out how much needs to be saved today to essentially hit all of their targeted objectives throughout the client's lifetime. I use a three-step process to determine how much they need to fund their existing shortfall in order to have the lifestyle during retirement they wish to have.

I explain it to my students and clients first in this theoretical manner (overview), and then I apply numbers to it to ensure that everyone gets it and can follow along. Now if the client informs me that he cannot do what is necessary to retire on his own terms, I say, "Here are your options." First, you can lower your needs at retirement and perhaps make it easier for yourself by having your existing funds already set to cover that shortfall, or even reduce the amount to make it easier to achieve your retirement objective. Second, you can retire at an older age, thus giving you more time to save toward retirement. Third, you could possibly take a more aggressive position on your investments, but you would have to be really careful with that approach as we would need to work through it and figure out whether that is even a realistic possibility. Fourth, you can reposition an existing asset(s) to provide an income stream, such as purchasing an annuity, to cover the shortfall. The benefit of that approach is if the client lives to age 150, that shortfall is covered the entire time. "That's it," I tell them. It's not rocket science. We have to see how we can make the numbers work to generate the comfort you want and need to hit this retirement planning objective.

Here's the overview:

Step 1: Since today's shortfall will not be the equivalent of today's dollars at retirement, what will today's shortfall need to be the equivalent of at retirement assuming inflation is at 3% (or whatever inflation-only number you wish to use)? When determining this amount, it should be based on what the client wishes to spend during retirement. In other words, expenses that are not relevant for the client should be backed out, such as work-related expenses, daily lunches, work equipment, etc., and replaced with expenses that are likely to occur during retirement, such as vacations, hobbies, etc. – all calculated in today's dollars. The reason for that approach is that we don't know what the numbers will be at retirement, so we have to figure them out today and adjust for when the client will be ready to implement during retirement.

Step 2: Now that we know what the shortfall will be at retirement, to determine the annual amount needed to cover that shortfall while growing at an inflation-adjusted rate of return, fast forward now to the age at retirement. What lump sum do we need in place at retirement that if

we then annuitized it over the balance of the client's lifetime, that calculation will provide us with the revised shortfall needed during retirement?

Step 3: Now that we know the amount needed to cover the revised shortfall at retirement, let's work in reverse and determine what we need to begin saving this year. If we continue to save that amount and it earns an investment rate of return of 8% (or whatever investment rate of return you wish to use), what will be the shortfall in today's dollars that will grow into the amount needed at retirement to cover the revised annual shortfall during retirement.

Rattiner's Secrets

Here's a hypothetical scenario with numbers. Ralph Really is ready to begin planning his retirement. He is age 37 today, wishes to retire at age 65, and plans to expire at age 96 (per his instructions). He wants to spend $100,000 annually during retirement, but when we figure out what annual income he needs to generate during retirement to offset those needs, in other words looking at the sources of income available to apply against that amount, such as Social Security, a defined benefit plan, real estate rental, annuity, and investment income, that amount totals only $80,000. As a result, his shortfall today is $20,000. Assuming inflation is 4% and he can earn an after-tax rate of return of 9%, the question is, how much does he need to begin saving today to ensure that he has sufficient funds to cover his retirement shortfall?

Here are the calculation steps on my HP12C.

Step 1	Step 2	Step 3
$20,000 CHS PV	$59,974 g beg CHS PMT	$1,002,482FV
28N	31N	28N
4 I	4.8077 I	9 I
FV = $59,974	PV = $1,002,482	PMToa = $8,874

Conclusion: If the 37-year-old client saves $8,874 per year beginning this year in an account earning 9% per year, by the time the client retires at age 65, he will have amassed $1,002,482 at his disposal, which he can then begin annuitizing and withdrawing $59,974 per year growing at an inflation-adjusted amount of 4.8077%. This will cover the serial payment necessary during retirement.

ACCUMULATION STAGE

Wade Pfau sums up this stage best: "In the past, retirees were more likely to have traditional defined benefit company pensions to manage longevity and market risks. But traditional pensions have virtually disappeared, with many employers having frozen or phased out their pensions. Instead employees and employers now tend to contribute to various defined contribution plans, primarily 401(k)s where the employee accepts longevity and market risk and must make investment decisions."

I have seen many Fortune 500 companies (roughly 80% of them) that offered defined benefit plans in the early 1980s reduced to literally just a handful now. With Americans not locked down to one job for their entire career and receiving the gold watch at retirement for their years of service, to now having between 10 and 15 jobs over their career, the landscape has changed. As a result, companies have transferred the risk over to the employees and the investment results, which is why 401(k) plans are most popular today.

Let us discuss the ways our clients can contribute to their retirement account.

Types of retirement plans

If the business owner client could select an appropriate type of retirement plan for the business, you can assist your client with the advantages and disadvantages that could impact funding for retirement.

There are differences among the major types of retirement plans: qualified plans (QP), personal retirement plans (PRP), and nonqualified (NQP) plans. For example, qualified plans have vesting schedules, which means that employer contributions need to be earned over time, while PRP employer contributions are earned immediately. QP are 100% creditor protected while PRP are not. The rule of thumb for PRP is $1 million based on a court ruling. However, many states have superseded that amount to make it unlimited. QP have 10-year income averaging for those people born in 1936 and before while PRP do not have that. QP may allow for loans while PRP do not. QP are more subject to ERISA than are PRP. Both QP and PRP provide for immediate employer tax deductions. NQP do not and are able to be written off only when the employee recognizes the income. For monies to grow tax-deferred in an NQP, there must be substantial risk of forfeiture, thus subjecting the funds to the claims of company creditors.