RETIREMENT PLANNING

Financial Planning in Retirement: Seeing All the Angles

In addition to investments, your financial adviser should be talking to you about insurance, Medicare, Social Security, long-term care, estate planning and tax planning.

(Image credit: Getty Images)

There's more than one way to go about many things, but I'm sure you understand this author has his preferences on the best ways to go about finding your ideal financial planning partner. Let's start with the evolution of advice in financial services.

Back in the days before the internet, if you wanted to buy stocks or bonds, you needed a broker. The stockbroker normally made a commission on the sale of stocks to their customers. It was more of a transactional relationship.

It was kind of like going to your favorite department store to buy clothes. You browse through the racks of clothes and when you pick out what you want, you take it to the register to buy it. In some stores, the clerk may suggest certain clothes based on what you need the clothes for, or the clerk may suggest a shirt or a pair of pants to match whatever you picked out.

When it came to buying stocks, the investor was limited in the ways they could trade in the stock market, and they needed a liaison to facilitate buying equities. The broker served an important role during that period of time.

Internet helped improve consumers' financial planning experience

Fast-forward to the internet age, and things slowly started to improve for consumers. When people could place trades on their own from the comfort of their home, a stockbroker was no longer needed to gain access to the stock market.

One benefit the broker may have provided was offering some level of advice about which stocks to consider when placing trades. What followed after the rise of the internet was a plethora of advice columns. The era of "do-it-yourself" (DIY) investing was ushered in.

I speak with many people each year who have successfully become their own financial adviser and accumulated a substantial degree of assets. DIY investors don't generally face much of a challenge in accumulating assets, especially when the federal government is accommodative to the stock market.

For example, when interest rates are ultra-low — as they had been for much of the twenty-first century — the stock market tends to do very well. But if you happen to hit retirement age at a challenging economic time, things may get dicey. For example, if you entered retirement around the year 2000, you would have encountered wildly different circumstances than if you retired in 2010. The first decade of the millennium saw two major disruptions, while the worst market disruption in the second decade resulted in about a 6% market decline in 2018.

I'd say most people who come to see us have saved for 20, and in some cases 50, years for retirement. Now they want to figure out the best way to begin using their retirement savings. What they are looking for is an income and distribution plan.

They're in luck, because that's what we specialize in helping our clients with. We put together financial plans for our focused decumulation phases of retirement.

But back to our different outcomes.

Retirement plans made consumers financial planners

Becoming your own financial adviser was necessary for participants in qualified retirement plans like the 401(k), which came out in 1978. Previously, many employers offered pension programs to their employees.

My grandfather worked for the telephone company for his whole career in the town where I grew up. He knew when he went to work there as a young man that if he worked a certain number of years and made a certain amount of money, when he retired he'd receive a certain amount of money in the form of a pension payment for the rest of his life. Talk about retirement security!

A pension manager managed a defined benefit pension plan, and the manager would look at a hundred-year swath of time. The manager could predict boom and bust cycles in the economy with relative accuracy, because human nature and other factors are somewhat predictable.

Under normal circumstances, a pension manager was trained to predict market cycles. But with the creation of the Federal Reserve in 1913 under President Woodrow Wilson, the government began attempting to periodically stimulate the economy for what we'll assume were altruistic reasons. The point we're making here is, when a third party got involved in artificially manipulating the economy and the free market could no longer dictate what happened, it became challenging for a pension manager to reliably predict boom and bust cycles in the economy.

Comprehensive financial planning is an appropriate direction

So, a shift in thinking suggested that perhaps the best thing to do would be to allow workers to become their own pension manager/financial planner — and this led to the introduction of the 401(k). This increased the risk of poor outcomes for the worker, but the responsibility of managing financial outcomes for retirees was no longer an employer's obligation.

Today, most stockbroker roles are particular, while financial planning roles like mine are holistic.

The thinking is that this comprehensive approach could prevent unintended consequences that may arise by just looking at investments and not looking at the long-term care or estate planning aspects. I believe this is an appropriate direction for financial advising to move.

If you're unable to figure out a distribution plan in retirement, or if your adviser isn't talking to you about investments, insurance, Medicare, Social Security, long-term care, estate planning and tax planning, it may be time to get a second opinion.

NYSUT NOTE: As retirement planning continues to evolve, the best way forward is with a solid comprehensive financial plan. A good place to start is with the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program. Through this program, NYSUT members can connect with Certified Financial Planners® for advice and financial counseling services that can be customized for their specific needs. Get started on developing the holistic plan that works for you by visiting the website and enrolling today.

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