

# Financial Plan White Paper

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## *The Importance of Developing and Maintaining a Financial Plan*

### Financial Planning Is an Ongoing Process

Ever since the new millennium, significant events enhanced by the impact of globalization have led to concerns about stability in the financial markets. The bursting of the tech bubble, the tragedy of 9-11, the decline in real estate followed by the credit crisis in 2008, the Flash Crash in 2009, concerns about the collapse of the European Union, and our own domestic political brinkmanship over the past few years have all created significant instability, which is likely to continue into the future. Even though corporations have prospered, household debt has declined at an unprecedented rate, America's energy output has surpassed that of any other country, and domestic manufacturing has again become competitive, consumers remain on edge about prospects for the economy.

Macroeconomic headwinds are expected to make the markets continue to behave like yo-yos. Aging baby boomers (many of whom are woefully unprepared for retirement), the increase in life expectancy, the trend toward more costly lifestyles in retirement, the decline in real interest rates, the potential for higher taxes, and the rising costs of health care compound the concerns about a person's ability to retire or sustain assets in retirement. Even those retirees who have sufficient income from retirement plans, personal investments and Social Security are dealing with the investment and spending challenges in retirement.

While all of these exogenous factors may seem daunting, financial planning can help those in or approaching retirement with key decisions. Investors in the highest income tax brackets should focus on what

they can control and take measures to ensure financial security for themselves and their family members. Budgeting and estimating income and expenses are part of this process. Other issues to consider can include how long to continue working, how to accumulate more assets through increased savings or reduced spending, what age to begin taking Social Security, optimal asset allocation strategies, and what is the proper withdrawal rate (or "decumulation") from retirement nest eggs. These decisions will significantly affect the amount of income that can be expected in retirement and the sustainability of that income over one's life expectancy. Regardless of a person's income level, everyone should make financial planning a priority. Solid financial planning helps people increase their ability to save and preserve assets for retirement, legacies, and other goals.

### Timeless Financial Planning Strategies

There are a number of planning strategies that may be appropriate in any economic scenario, depending upon your circumstances.

- **Start making or updating your financial plan.** Many tools are available to enable you to do this yourself, or you may wish to engage a professional financial planner.
- **Save or recoup dollars you will need in retirement.** Maximize contributions to retirement plans and stay abreast of contribution limits. Save as much discretionary income as possible in personal investments. While boosting savings is a positive strategy, it may have marginal benefit if one has only a few years until retirement. Working longer and saving longer lead to better results.

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- **Spend less and cut costs.** An annual budget is key to identifying opportunities. These may include refinancing a mortgage, reducing property taxes by reassessing home values, or evaluating lifestyle expenditures. Debt reduction may also be advantageous.
- **Be opportunistic about taxes.** Changes in the tax law will remain a constant. Seize opportunities as presented using time-tested techniques. Diversify concentrated investments or business interests if long-term capital gains remain low. Portfolio losses may be harvested throughout the year to offset gains. Tax diversification through contributions to a Roth 401(k) or a partial or full conversion of traditional IRA assets to a Roth IRA may also be considerations.
- **Update your estate plan.** Recent changes in tax laws also mandate an ongoing review of estate plans, especially for high income earners. Extraordinarily low government-approved rates, the Applicable Federal Rates, continue to make family loans and other tax-advantaged strategies such as intentionally defective grantor trusts or grantor retained annuity trusts timely. It is also a good idea to review beneficiaries of retirement accounts, insurance policies, and other assets that pass outside of your will.
- **Review your asset allocation.** With bond yields at all-time lows, dividend averages increasing but still at roughly half the long-term average of over 4%, and muted growth and volatility making price appreciation an uncertainty, investors have been challenged to meet goals. It is important not to reach for higher-yielding investments without considering the incremental risk. You should also consider liquidity requirements and long-term objectives in your asset allocation. It may be important to confer with a professional to update your investment strategy.

Regardless of where you are in your life's journey, financial planning can play an important role. We invite you to contact us to learn how we can help you achieve your specific financial goals.