

BUSINESSTIMES

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Old adages remain true when it comes to retirement planning

Professional advice can help you be financially independent



INSIDER'S VIEW

Philip Henry

Ever hear the saying, “people don’t plan to fail, they just fail to plan”? Never was this saying more true than in the area of retirement planning. No one plans to become impoverished. No one desires to retire and be dependent solely on social security checks. But many do not take the necessary steps to build a plan, or a road map to success.

First of all, rather than thinking in terms of retirement, which denotes the end of something, think rather in terms of becoming “financially independent.” To be financially independent means the beginning of something — the beginning of no longer needing to work. When one reaches financial independence, working to earn an income becomes an optional activity.

WHAT IS FINANCIAL INDEPENDENCE

The state of being financially independent will not take on the same definition in two different households. The key is to define what it means in yours and then to have a conservative projection prepared, which is the financial road map. Once developed, plans need to be reviewed and adjustments made as necessary to remain on course. Because...“if you don’t know where you’re going, any road will get you there.”

An illustration will drive the point home; Bill and Jill are both 50 years old. Their present combined income is \$200,000 per year. They define financial independence as having the ability to generate \$160,000 per year at age 63, in today’s dollars. They presently have \$1,000,000 earmarked in 401(k)s and are contributing a combined \$26,000 per year in salary deferrals and employer matching. Assuming they earn 8 percent per year before they retire, but then assume a more conservative 7 percent in retirement, and assuming inflation at 3 percent, will they be able to retire at age 63?

Based upon the above assumptions, they can retire all right and live very comfortably... but only until age 83. At that time, given the above assumptions, they would exhaust their personal assets and be left only with social security income.

What adjustments can be made now to assure that Bill and Jill do not deplete their funds during their golden years? These three minor changes to their financial road map, projected forward, would ensure that they stay on course:

1. Increase their 401(k) savings from \$26,000 to \$38,000 per year
2. Deferred planned retirement by one year from age 63 to 64, and
3. Assume a reduced retirement income of \$154,000 instead of \$160,000

IMPORTANCE OF ANNUAL REVIEWS

Once a conservative map has been drawn, Sam and Sally need to pull into

rest stops at regular intervals (at least annually) to gauge their progress.

What if they actually saved more or less than projected, earned a higher or lower rate of return, dipped into retirement funds for an emergency or maybe even received an inheritance? What if their salaries increased at better than expected levels, resulting in higher than expected 401(k) contributions? Any of the above “what if” scenarios would impact their planning and should be accessed.

You’ve heard this stinger; “Most people spend more time planning for a two-week vacation, than for their entire financial future.” Ah, but you say it’s late in the game, there’s not enough time for me to plan. Wrong! It’s never too late change apathy into action and to start doing the right thing.

Finally, on behalf of my profession; you’re only going to retire once, but we assist clients with retirement planning issues every day. Seek out expert professional advice. “There’s no such thing as a free lunch,” so it will cost you, either in planning fees and/or fees to manage assets.

But wouldn’t those fees pale in comparison to the major cost of doing nothing, or of making bad, ill-informed decisions?

So, “don’t be penny wise and pound foolish” but rather, seek needed advice to get onto and remain on the road to financial independence!

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