OFG FINANCIAL FOCUS

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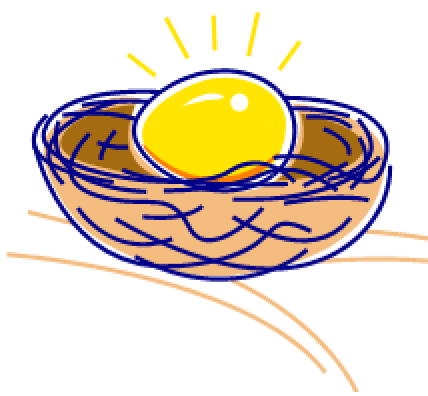
FAILING TO PLAN IS PLANNING TO FAIL

I recently spent some time with a financial advisor who practices in an affluent area of San Diego, California. He has been on a mission this year to make sure that all of his clients do some kind of systematic retirement income planning.

The process has been a revelation to him, in that he found that only about five percent of the clients coming into his practice already have a written financial plan for retirement. "I had thought that the important thing was how accurate and detailed the retirement income plan was," he says, "but it turns out that what really matters is *whether there is any plan at all."*



That's right, of course: the threshold issue in retirement income planning isn't how well you've done it. It's whether you've done it at all. As in so many aspects of life, failing to plan financially ***for*** retirement is in reality the act of planning to fail financially ***in*** retirement.

Because when we finally step across the threshold of retirement—as ten thousand of the fabled baby boomers do every day in this country—our financial lives essentially shrink down into one perfectly binary issue: **will our money outlive us, or will we outlive our money?**

The answer we get to that question will affect not just the quality of our lives in retirement, but it will directly impact the lives of our children and grandchildren. Will we be able to leave a legacy to our children, or intervene in the funding of our grandchildren's education? If we're on plan to consume less than our retirement savings in retirement, those are options. If we outlive our savings, they're not.

Whether you're thirty years away from retirement on thirty months into retirement, I can assure you—and I know your financial advisor will join me in this—that it is neither too soon or too late to formulate a plan. The calculations themselves aren't complex. (As another advisor friend of mine recently said, in a malapropism worthy of the early Ringo Starr, "This isn't rocket surgery.") The willingness is all: get the facts and then face the facts.

The primary fact of retirement income planning is that it's a moving target. It isn't enough to plan to have a certain income to cover a certain cost of living on a certain retirement date (although that's a really great start). Because the cost of living is always—however slowly—increasing: in a three-decade retirement at long-term historical inflation of three percent a year, your cost of living can be expected to go up something like two and a half times.

For those of us planning for a retirement in the future, that means it won't be enough to plan to cover today's living expense. Once we figure those expenses out, we need to inflate them (at, say, three percent a year) for every year from now until our retirement date. (Get the facts; face the facts.)

Then, on the back of an envelope, you can make a halfway decent guess at the sum of retirement savings necessary to produce that (realistically inflated) cost of living: multiply the income by twenty.

The questions then become (1) How much have you saved for retirement so far? (2) How much are you going to have to put away each month—that is, how much gratification are you going to have to defer—to bring you in range of your goal? (Remember that, at the long-term compound return of the S&P 500 of about ten percent, *the last dollar a 45-year-old spends is fifteen dollars his 75-year-old self won't have.)* (3) What rate of return will you need in the interim to close the gap? And finally (4) which investment classes have (and which have not) historically produced that needed rate of return in the long run?

Again, not rocket surgery, but not a set of calculations most of us can easily do—which is why your financial advisor, who I assure you is standing by to do them for and with you, was sent into the world. The goal: ***a dollar-specific, date-specific retirement income plan***, for (as the great American philosopher Lawrence Peter Berra famously said) if you don't know where you're going, you might not get there.

Even for those of us who've crossed the threshold into retirement, one more critical planning session is in order. Again, it involves two relatively simple calculations. (1) Inflated at three percent per year, what is the trajectory of your probable living costs over the balance of you and your spouse's life expectancy? (2) Given your present portfolio, what is the historical long-term trend of your income likely to be? If you find that a reasonably projected trendline of your living expenses will one day overtake and then exceed the trendline of your expected income, *then today is the day for you and your advisor to make a new plan.* **Get the facts, face the facts.**

Your physician will confirm to you that the five most dangerous words with respect to a person's health are "Maybe it will go away." The financial equivalent of that denial is the absence of a written retirement income plan. This isn't just the year or the month to make an appointment with your financial advisor in order to begin formulating a plan. ***This is the day.***

I believe our flag is more than just cloth and ink. It is a universally recognized symbol that stands for liberty, and freedom. It is the history of our nation, and it's marked by the blood of those who died defending it.

John Thune

The only one who can tell you 'you can't' is *you.* And you don't have to listen.

Success is not what you have done compared to what others have done. Success is what you have done compared to what you were supposed to do.

Tony Evans

Optimism is the most important human trait, because it allows us to evolve our ideas, to improve our situation, and to hope for a better tomorrow.

Seth Godin

It's so simple really: If you say you're going to do something, do it. If you start something, finish it.

Epictetus

The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack of will.

Vince Lombardi

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