IS AMERICA PREPARED TO RETIRE?

How, when two-thirds of us have no plan?

64% of Americans have no financial strategy at all. That's right – no plan whatsoever to build wealth or keep it. That finding comes from the 2009 National Consumer Survey on Personal Finance conducted by the Certified Financial Planner Board of Standards, Inc. (The survey collected data from 1,700+ U.S. residents.)[1]

Only 17% of us have a written financial plan that is updated regularly. So congratulate yourself if you are in that group. The CFP Board found that just 17% of the 36% polled who did have a written financial plan had reviewed it in light of changing times. Notably, 48% said they had benefited from having a written plan.[1, 2]

Just 38% of the 36% having written financial plans retain a financial professional. The really troubling part: 37% of those with written plans are doing their financial planning on their own. Another 12% of respondents with written plans have consulted a friend or family member who isn't a financial services professional for advice.[1] Furthermore, virtually none of them understood the difference between the fiduciary and suitability models. The *fiduciary* model is similar to dealing with a trust department where the advisor is legally required to place the client's interests first, without any conflicts of interest and with all fees required to be reasonable and fully disclosed. Whereas the *suitability* model allows the representative or 'advisor' not to do what's best for the client, but he must simply not do something he knows to be 'unsuitable'. He is also allowed to place the interests of his employer, his sales manager and himself before the interests of his client.

Why don't more people have a financial plan? After all, Americans of all incomes and savings levels certainly are free to set financial goals. In the survey, the reasons varied. Some cited the expense of engaging a financial professional; some said they get along just fine without a financial plan, and others felt their finances weren't complicated enough to warrant one. Others were hazy about financial services industry qualifications - 40% of respondents had no idea that there were professional credentials or designations for financial professionals. The largest contingent were admittedly "in denial", too frustrated or too overwhelmed to want to even think about it.

Defined goals lead to definite plans. If you set financial objectives and plan for them, you vault ahead of most Americans – at least according to the CFP Board's findings. A written financial plan does not imply or guarantee wealth, of course; nor does it ensure that you will reach your goals. Yet that financial plan does give you an understanding of the distance between your current financial situation (where you are) and where you want to be. Too many Americans, it seems, have little comprehension of their financial situation or their financial potential.

How much preparing have you done? Retiring without a financial plan is an enormous risk; retiring with a financial plan that hasn't been reviewed in several years is also chancy. A relationship with a financial professional can help to bring you up to date about what you need to do, and provide you with more clarity and confidence when it comes to the financial future.

What about "retirement insurance"? There are financial products available now which offer insurance riders for increasing one's future income. After all, retirement is usually more about sustainable cash flow than about asset accumulation. One such popular vehicle is a 'personal pension account' which increases in future income at a rate of 6% per year regardless of market performance, or it annually locks in market performance, whichever is greater[3]. So for example, in the decade from 2000-2009, the 'lost decade' where the stocks of the S&P 500 companies had a negative return, this account would still have increased by 6% per year, or a total of 60%, *towards the account owner's future income*[3]*.* While many hope to average greater than that per year, many advisors would argue that 6% is a very respectable number, especially as a floor. This rate is one that historically would have outpaced inflation and thereby lessened 'purchasing power' risk, the possibility that the increasing costs of goods and services will exceed one's portfolio performance. Like any risks that are transferred, there is always an extra cost to such guarantees, but for many, it is considered a very worthwhile expense because it allows one to know their worst-case scenario in advance. Furthermore, knowing that there is such a floor might then also allow one to invest in a more aggressive asset allocation.

Why save? This is all done in the hopes of enjoying a dignified lifestyle when we decide to retire, or our bodies decide for us, and in doing so, also avoiding the very real possibility of becoming a burden to our children and others.

Citations.

[1] cfp.net/downloads/CFP_Board_2009_National_Consumer_Survey.pdf [7/24/09]
[2] reuters.com/article/pressRelease/idUS132983+24-Sep-2009+BW20090924 [9/24/09] l
[3] all investments involve risk, including the claims-paying ability of any insurers, so be sure to consult with a qualified advisor and to review any materials including a prospectus before investing.