Destination: A Rewarding Retirement

Prepare for the road ahead—and all of its unknown dips, rises, twists and turns—with a wholistic financial plan.

The first step to a successful plan is … making one

When it comes to setting a financial course for the future, the average American has good intentions, but often falls short in determining how to best meet his or her goals. Whether people are hesitant to dig into personal finances, nervous about what an examination will uncover or simply lack the time, many end up putting off necessary analysis.

As a result, the financial decision-maker in a typical household may think through one or two individual savings goals, but lack a comprehensive plan to pull all of the family's needs together, according to a survey of American households prepared for the Certified Financial Planner (CFP) Board of Standards and the Consumer Federation of America. Not surprisingly, the study—which found that only 32 percent of those surveyed say they have a comprehensive plan—concluded that Americans that consider themselves "basic planners" (38 percent of all decision makers) manage to stay out of serious debt, but often fall behind on key savings goals.[1]

> **"Some people avoid planning because of time constraints, while some underestimate the complexity of the planning that's needed. Others put it off because it's a difficult issue to discuss with family or friends, while some are overconfident. But if you wait too long to think seriously about it, it's too late."**
>
> *—Swarn Chatterjee, Associate Professor, University of Georgia's Financial Planning Program*

Additionally, the Society of Actuaries found that while 46 percent of individuals say they try to plan for the future, 34 percent of pre-retirees and 37 percent of retirees acknowledge they either don't plan ahead or "haven't thought about it."[2] Meanwhile, a 2015 report from the Federal Reserve showed that 46 percent of adults said they could not cover a $400 emergency expense without selling something or borrowing the funds.[3]

Of course, every financial reality reflects a series of choices and circumstances that led up to that point. For many across the affluent spectrum, according to the CFP Board of Standards, those best positioned for the future adhere to a wholistic financial plan that provides the structure to achieve goals and the flexibility to meet tomorrow's unknowns.

Life stages prompt different priorities

Just starting out

- Core budgeting
- Building an emergency fund
- Whittling away student/credit card/other debt
- Initial retirement savings

Growing a family

- Securing adequate life/disability insurance
- Financing a home
- Meeting rising day-to-day expenses
- Saving for education
- Saving for retirement

Maximum earning years

- Saving for retirement
- Saving for education
- Covering heightened day-to-day family expenses
- Monitoring investments
- Creating an estate plan to provide for spouse and dependent(s)

Post-career

- Financing retirement goals
- Allowing for health-related expenses—present and future
- Modifying your estate plan for family legacy
- Achieving philanthropic goals

"Without a plan, you're just guessing—you don't know if you're on track to achieve your goals," says Jennifer Ritorto, CFP®, a financial advisor with SunTrust Investment Services. "A financial plan helps you define what's important to you, and then it gives you specific actionable steps to help you accomplish your goals. Every year, you can reevaluate, asking yourself, 'Have I stayed on course? And if I haven't, what changes do I need to be making so that I continue on the right track?'"

The winding road to retirement

Given all of the uncertainties around life expectancy, future health demands, the stability of Social Security and many other factors, the largest financial planning need for most Americans is to prepare for life beyond their working years. This is especially true for the 25 percent of working Americans identified in SunTrust research who have nothing saved for retirement.

Even the 75 percent with at least some kind of savings, however, aren't exempt from further planning. According to the Society of Actuaries, planning horizons are consistently inadequate to cover most periods of retirement because people make decisions based solely on what they are currently spending and the income they expect to receive.[2]

Many pieces to the retirement puzzle

Some contend that a brokerage statement and related investment decisions suffice as a financial plan. While such documents offer good insight into your financial foundation, experts insist your portfolio is simply one piece of the much larger puzzle that a comprehensive financial plan encompasses.

> **"You may not consult a map for a trip to the store across town, but you will probably want directions, or a plan, for a spring break trip to California."**
>
> *—Creating a Personal Financial Plan, Missouri State University*

"A plan should be individualized, and it's not just an investment document—it has to cover everything," says Tom L. Potts, Ph.D, CFP®, a professor of Finance at Baylor University. "There are different degrees of complexity, depending on the individual, but a good plan will tie together all the different elements of financial planning."

What elements should your financial plan include? Swarn Chatterjee, an associate professor in the University of Georgia's Financial Planning Program identifies six core components:

1. Cash flow analysis: A robust look at your month-to-month income and expense levels, balanced against your debts and assets

2. Risk management: A realistic survey of potential risks to your cash flow and an understanding about the types of insurance—including life, health, liability and disability—that could address those risks

3. Investment management: An examination of your portfolio through the lens of your goals and when you hope to accomplish them

4. Retirement planning: A savings plan mapped to achieve your goals for when you want to retire and aligned to the lifestyle you want to lead beyond your full-time working days

5. Tax planning: Your tax-advantaged options for saving—especially for retirement or a child's college education—and tax-smart ways to navigate your other financial objectives

6. Estate planning: The basics include a will and directives about your healthcare and representation if you become incapacitated. Beyond that, gifts to family members and philanthropic efforts should be strategized to ensure your legacy.

"A good financial plan will efficiently lead you through life while reducing costs you would otherwise have," Chatterjee says. "Sometimes those costs are tangible and can be expressed in values, such as portfolio returns. Sometimes it's little things that you can't assign a monetary value to. For example, a good tax plan, estate plan or adequate insurance offers protection against life's unknowns."

> **"If a plan was drawn as a wheel, the different elements of the plans would be the spokes connected to a hub, which is the plan itself."**
>
> *—Tom L. Potts, Ph.D, CFP®, professor of Finance, Baylor University*

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The Comprehensive Financial Plan's Core 6

1. Cash management assessment
2. Risk management considerations
3. Investment profile
4. Retirement planning
5. Tax planning
6. Estate planning

Source: "A Comparison of Retirement Strategies and Financial Planner Value" by Terrance K. Martin Jr., Ph.D.; and Michael Finke, Ph.D., CFP®

How do I define a goal?

Stuck in first gear and struggling to define your goals? Not sure if your future aspirations are robust enough to fuel your comprehensive financial plan?

According to the CFP Board of Standards, the most effective goals:[4]

- Are simultaneously motivational and realistic
- Cover both short- and long-term time frames
- Reflect priorities
- Allow for the impact of time
- Will be flexible enough to endure life's changes

"Simply being formalized is so important because while everyone has goals and objectives, they frequently don't articulate them well," Potts says. "When you go through the planning process, you determine specifics around those goals and objectives. The planner should tie the rest of the plan and all future discussions back to those."

Care and feeding of your plan is important, too

A comprehensive financial plan is designed to be dynamic. It will evolve as your circumstances—personal, financial and emotional—ebb, flow and mature. After all, consider how the needs and priorities of a 26-year-old single professional contrast with those of a 50-year-old married father of three or a 67-year-old recently widowed retiree.

To ensure the ongoing relevance and value of your financial plan, experts recommend a thorough review *at least* once a year. Furthermore, a refresh is helpful whenever your life changes significantly, boosted or buffeted by events such as:

- Marriage
- Divorce
- A new job
- The loss of a job
- A new child
- A death in the family
- A sudden medical expense
- An inheritance
- A major change in the market

Potts likens the review process to a regular dental exam: If all looks good, keep plugging away. If something surfaces that needs attention, drill down into it, within the context of the broader plan.

For some, there's a temptation to check in much more frequently—especially with regard to the value of portfolio holdings. Since these will rise and fall alongside the vagaries of the broader financial markets, Chatterjee cautions against putting too much stock in such check-ins.

"With long-term goals, it's important to remember that you shouldn't expect the short-term discrepancies to make a lot of difference over the long-term," he says. "Unless you have a specific short-term goal, which shouldn't be linked to potentially volatile investments anyway, looking over your portfolio every quarter and re-balancing annually should be fine."

The basic steps to creating and maintaining a financial plan:

1. Determine current financial situation
2. Develop financial goals
3. Identify alternative courses of action
4. Evaluate alternatives
5. Create and implement your financial action plan
6. Review and revise the financial plan

Start planning now.
To find a SunTrust Advisor near you, visit suntrust.com/peoplefinder.

Jennifer Ritorto, Investment Advisor Representative, SunTrust Advisory Services, Inc.

[1] "Financial Planning Profiles of American Households," Sept. 18, 2013, Certified Financial Planner Board of Standards, Inc. and the Consumer Federation of America
[2] "Understanding and Managing the Risks of Retirement," 2014, Society of Actuaries
[3] "Report on the Economic Well-Being of U.S. Households in 2015," May 2016, Board of Governors of the Federal Reserve System
[4] "Setting Goals that Empower your Financial Future," March 7, 2012, Certified Financial Planner Board of Standards, Inc.

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