

Teach Your Clients to Retire Wisely

By Vanessa Richardson

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With the first Baby Boomer having just applied for Social Security, it's official: The largest generation of Americans ever born is now planning for retirement. That's good news for financial advisors, but you have much work ahead of you in helping them understand what they're up against.

The human life span keeps extending. The days of corporate pension plans are numbered. Healthcare costs keep rising. This means clients' financial well-being will depend increasingly on smart advance planning, good budgeting and strong investment returns. But many Boomers are either too optimistic or too ignorant about how to prepare for retirement, even if it's just a few years away. How do you make retirement work for them after they have stopped working? AdvisorMax asked retirement-focused experts who often face this situation how to do so successfully.

Have them fill out a questionnaire

Advisors usually have one for new clients at the first meeting, but consider having a questionnaire specifically on retirement issues when clients are approaching that milestone. Kathleen Rehl, a CFP in Land O' Lakes, Florida, already has clients' financial info but a few years before retirement she sits them down to answer questions like when they plan to retire, how long do they expect to live, their family's health history, post-retirement income sources, expected living expenses during retirement, plans to move, travel plans, and charitable legacies.

Martha Schilling, a chartered retirement planning counselor in Dresher, Pennsylvania has a long one prepared, but as an advisor in the Garrett Network, which emphasizes advice on an hourly basis, she breaks it into three parts in case clients only have minor issues to address. "One client may just ask, 'How many years do I have to plan for, and am I on target?'" she says. "I'll give them just section 1 and 2 to fill out. Another client may only ask for help with her 401(k) allocation, so I only give her Part 3."

Give them visuals

Rehl is considering hiring a graphic designer because she realizes the importance of visual aids in helping clients grasp their retirement situation. One favorite is an illustration titled "'After the Last Paycheck: Making Your Money Last In Retirement.'" It's a "Chutes and Ladders" graph that

shows various sources of income and how they shift and change before and during retirement. She shows it to clients several years out from retirement, revisits it annually, then uses it for review in the first couple of retirement years.

Rehl says her clients respond very well to visual presentations. “When people look at this, they immediately get it instead of trying to mentally figure how much they need. After we talk through the concepts on the page, then we can plug in the specific numbers. It gives them more peace of mind.”

Plot a timeline

Plotting out where they should be before, starting and throughout retirement will help clients better grasp how to prepare. Schilling maps a timeline for clients. “Say I have a 60-year-old client who plans to work until June 2010 and we’ve estimated he’ll have 30 to 35 years of retirement,” she says. “In the timeline, I list all the things they need to do, like apply for Social Security in the March before retirement, allocate his 401(k) plan defensively in April. I’ll also plot reminders for doing the will, insurance policies and medical/disability.”

Schilling does the timeline in Excel or spreadsheet and lays it out in front of clients, then they consult periodically about changes and adjustments. Like Rehl, she agrees making the timeline a visual aid works best. “When it’s laid out on paper, there’s no surprises,” she said. “Visuals are more effective because it’s all there in front of them. Then it hits them how many years they have until the kids finally graduate from college and the mortgage will be paid down.”

Help them fill out forms

A major line of business for Burk Rosenthal, a CFP in Dallas, is helping corporate employees fill out all the official forms necessary for retirement. He holds on-site retirement workshops at companies like General Dynamics and Lockheed-Martin, explaining issues like handling 401(k) withdrawal and applying for Social Security. But knowing the corporate procedure is also important. “We keep a file for each corporation that becomes a valuable resource for us in helping the next client who retires from that same company,” Rosenthal says. “We learn exactly what forms are required and what deadlines are involved. This is especially important to know when we need to advise on what to do with the company’s pension options, retiree health benefits and accrued vacation.”

Because his clients are so close to retirement, Rosenthal is not able to give much strategic planning, but knowing corporate policy allows him to give valuable last-minute advice. “For instance, we can tell some employees to retire the following year so they can get extra weeks of vacation accrued and cash it in. Or we can time the right retirement date based on whether interest rates will increase or decrease their lump-sum pension in the next quarter.”

Working with companies helps Rosenthal get referrals for new clients. “Clients often tell me they feel I know more about how to retire from their company than their own human resources department. Some have friends at other companies who are stressed out about forms and deadlines, and they refer to us because we worry about all those details so they don’t have to

figure it all out on their own.”

Go beyond the financial aspect of retirement

As clients approach this stage of life, advisors should not just address the money angle. “It’s important to acknowledge that this is an important, life-changing event,” says Schilling. “Get them to focus on what they like, how to reinvent themselves and what is important. It has to be acknowledged; otherwise, they may fear that retirement equals a slow death.” To better help her clients deal, Schilling trained to become a certified senior advisor to better address issues like long-term care, work opportunities and the emotional adjustment.

Sometimes going from a full-time job straight to doing nothing is a big mistake. Rosenthal tries to give realistic expectations about this to clients. “I tell them that retirement may be different than they’ve imagined. Some clients swore they’d never work again, only to find themselves back at work within several months because they were bored to tears. Then there are others who wanted to start a business or work part time only to find out this was not their cup of tea and they ultimately ended up doing something entirely different. Sometimes it takes a few months to discover your ‘ideal retirement.’” That’s why for those eligible for Social Security and with plans to not work anymore, Rosenthal encourages them to wait several months before applying to make sure they don’t find themselves working again and be possibly subject to penalties for earning too much money.

Realize that spouses may often have different ideas of how to spend their retirement. To bring this to light, Rehl has couples do an exercise called “One Ideal Day in Retirement.” She gives each person a weekly plot of 21 squares -- seven days chunked into morning, day and night -- and has them plug in activities they plan to do in each square. The results are often surprising. “One lady had her ideal day filled with activities but her husband was upset that she had only penciled time with him during Friday dinner,” Rehl said. ““I feel like an interruption in your life,” he told her. That’s when we sit down and discuss how to mix retirement lifestyles. It sometimes creates a whole new marriage, but also creates new opportunities.”