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INSIDE **BUSINESS**

by Bradley R. Newman

Retirement planning requires safe strategy and close monitoring

Successful house building relies on having a detailed set of plans to work from. The same holds true for investing and financial planning. The person who says, "I just want to retire at age 60," is as likely to genuinely enjoy their retirement as the person who tells their builder "Just build me a house," is likely to have their dream house built.

Let's focus financial planning discussions specifically on retirement, keeping in mind that many of the same principles will apply to other areas of financial planning.

Retirement plans (401(k), 403(b), IRAs, etc) will typically your biggest asset at retirement – worth more than your home. Additionally, most people can expect to spend one third of their lives in retirement. Oddly enough, most people spend less time planning for retirement and managing their investment portfolio than they do researching the new $800 fridge they are about to purchase for their new home.

Frequency

Investing and retirement planning are not once-and-done issues. These are areas that need to be reviewed regularly. We find reviews no less than annually, but not more than quarterly are appropriate for most individuals. The 'big picture' issues should be addressed annually.

Getting Started

The first step to successful planning is to create the initial plan. The foundation of the plan is having a vision of your post-retirement life. Will you maintain your current standard of living? Will you relocate to another area of the country? Will you purchase a second home? The next step is translating your goals into dollars and cents. Your objectives must be clear. Often times, the best place to start is with a detailed list of current expenses. Your current spending patterns will provide a point of comparison for your post-retirement lifestyle. You can make additions or deletions to your current expenses to develop your post-retirement income need.

Be honest and conservative. If you are uncertain about having an expense, include in your projections. If you are unsure what a specific item's dollar figure will be, always use the higher dollar amount. If you think that you will live 25 years into retirement, plan on 30 years. If you feel comfortable that you will be able to earn an 8-percent total-portfolio investment return, plan on 6 or 7 percent. You do not want to base your planning on a lower level of retirement than what you will want.

Strategy

The second step is to create your investment strategy. This applies to both how to save the money in the first place as well as what to do with the money that you have saved. The two core tenants of saving are:

- Pay yourself first.
- Automate your savings.

These strategies are the most important factors in accumulating the dollars that will allow you to reach your goal. As a nation, we have a track record of spending whatever we can access. By paying yourself first, you save for you future before you begin to pay your bills or do any discretionary spending. The most reliable way to do this is through automated savings. Examples are: 401(k), deferred compensation plans and deductions directly from your checking account into an investment account.

Investing

Once there is money to invest and you are saving additional dollars on an ongoing basis, the next step is building an investment portfolio. Your investment policy will define your goals, provide objectivity, guide your investing and maintain focus on your goal. It will prevent you from getting side tracked by issues like the hot stock of the week. It will also help you establish your asset allocation model, which will tell you where to place your money.

Monitoring

The remaining work is the ongoing monitoring of your investments. Reviewing your portfolio on a quarterly basis should be sufficient to realign your portfolio with your asset allocation model and to determine if you are on track to meet the benchmarks that you established. On an annual basis you should be reviewing your plan in total – begin by seeing if your overall goal has changed

Be open to reworking your plan as your situation changes. If your circumstances change, you will need to make adjustments. Dramatic income changes (positive or negative), changes to your family situation (marriage, remarriage, divorce, additional children), etc will all require you to reevaluate your plan.

We recommend that our clients consider planning for alternate scenarios as they get within seven to ten years of retirement. They may want to see what retirement at 55 vs. 60 would look like if they are in merger-prone industry or may want to explore the reality of that vacation home that they have always discussed.

Sound difficult? The implementation can certainly be quite daunting, but conceptually this is something that most people can follow. At some point most everyone will need professional help to establish and execute their plans. The key is to find an advisor that you trust and that you know is working solely in your best interests.

Bradley R. Newman is a financial consultant with Roof Advisory Group, Inc., an independent investment management and financial planning firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that manages assets and preserves wealth for individuals & institutional clientele. The firm's e-mail address is invest@roofadvisory.com.