

NavigatorInsights

Three Ways Income Planning Can Help Your Clients Navigate The Future



Today's investor has an average of 3.6 relationships with financial services providers¹ While diversifying among asset classes is one of the best decisions investors can make, many clients mistakenly think that diversifying across financial advisors is also a good strategy. Unfortunately, this tactic can prevent clients from understanding their full financial picture. **Giving clients a clear and concise roadmap for their retirement income needs can help establish you as the retirement expert in your community, and it can help clients make better decisions about their future.** We think an income plan can help you illustrate to your clients the value of consolidating their assets with one trusted advisor.

Why Income Planning and Why Do It Now?

One of the basic tenets of behavioral economics is that investors have the ability to make better decisions when planning for their future than they do when making decisions in the here-and-now. In one classic study, participants were asked whether they would choose to eat a banana or a chocolate bar **at a later date in the future, such as next week.** When presented with the choice of a healthy option or an unhealthy option, 70% said they would choose the banana. However, when presented with the option of choosing a banana versus a chocolate bar **today**, 70% of participants chose the chocolate.

“The same psychology works in finance. When faced with a future choice, we generally select a smarter option, such as savings, while an immediate choice triggers the pleasure of spending. The science is clear. Brain scans show that the emotional and logical areas of our brains wrestle over immediate decisions, but our logical bits rule when considering our future well-being.”²

Three Ways a Simple and Straightforward Income Plan Can Help Clients

1. It Gives Investments a Purpose

Together with a personal benchmark, a clear income planning roadmap can help keep clients focused on their unique goals, not on arbitrary market benchmarks. It’s a straightforward approach to investing that can help clients achieve a genuine level of preparedness for retirement.

The income planning process can help you answer the most relevant questions for your clients:

- How much money will I need in retirement?
- When can I retire?
- Will my spouse and/or children be OK if something happens to me?
- Can I leave a legacy?

2. It Spreads Investment Risk Out Over Time, Helping Investors Remain Confident

Using time as a risk management tool, an income plan can help you safeguard short term income needs in vehicles like money markets and duration protected income vehicles, while investing riskier assets like equities in buckets that will not need to be tapped for 10 years or more. Time can manage volatility, since over long periods of time, the effects of market spikes are smoothed out. Using a bucket approach to asset management can help spread a client’s risk out throughout their investing lifecycle. Most importantly, if the markets go through a period of volatility, clients with a longer time horizon can rest assured that their long-term investments have time to recover from losses since they will not be drawing income from longer term buckets.

3. It Can Help Investors Pay Themselves First

Today’s baby boomer clients have complex needs. Many find themselves strapped between expensive college tuition payments, caring for their parents, and trying to save for their own retirement. They commonly make the mistake of raiding their retirement accounts in order to pay for their kids’ tuition, which can have catastrophic effects on their retirement. In fact, Fidelity data shows a spike in people borrowing from their 401(k)s in the third quarter of every year, which they suspect is to pay for children’s college tuition.³

Although young adults can take out loans for tuition, there is no loan for retirement income. By presenting clients with a personalized income plan, you can help prevent them from derailling their own retirement needs and help them make informed decisions about their future.

What to Look for in Income Planning Technology

A typical financial advisor will present a client with an investment plan with the hope of reaching a certain annual return, usually tied to a benchmark. They provide a timeframe and assume the client's investments will appreciate enough to provide the income necessary. We think there's a better way to help clients understand exactly how their life goals will be funded by their investment strategy.

Income planning software should map out the income needs of the client over time, and do it in a straightforward, highly visual way. By segmenting out the income needs of the investor over time periods, clients can see that the money they need to draw from first stays invested in safer vehicles such as duration protected bonds or money markets. More volatile, higher-return-seeking investments remain further out in the time horizon, making them less susceptible to the ups and downs of the market.

As our industry begins to address the income needs of the aging baby boomer population, arming clients with a personalized roadmap can help them stay on the right track to reach their desired outcomes. An income plan can bridge the gap between the investment plan and the actual execution of it, helping clients truly understand how their money will work for them.



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2. Benartzi, Schlomo. "The simple question that will encourage saving." The Financial Times, March 18, 2012 (Retrieved from: <http://www.ft.com/cms/s/0/56adcfbe-66ba-11e1-863c-00144feabdc0.html#axzz3kPvDyz3L>)
3. Brooks, Rodney. "Don't let grown children derail your retirement." The Washington Post, August 22, 2015 (Retrieved from: http://www.washingtonpost.com/business/get-there/dont-let-grown-children-derail-your-retirement/2015/08/21/37d55504-4522-11e5-8e7d-9c033e6745d8_story.html)

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