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We Regret to Inform You…You're Out of Money

By Tyson Smith

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These are words that no family wants to hear during retirement. Unfortunately, I'm seeing a massive surge in people without any type of budget, cash flow analysis or long-term financial plan. ....and I get it. After the Fiscal Armageddon of 2008, people just didn't want to do the analysis. They didn't want to see the facts in writing. The cognitive dissonance was too great. People understood the reality of the situation and knew that deep down, they would need to work much longer than originally anticipated - perhaps forever.

Or perhaps someone had a fantastic financial plan that they created years before the crisis. Perhaps that plan stated they could retire in 2015 or 2016. Every possible contingency was considered; Disability during working years, Premature Death, Long Term Care, College Planning, Charitable Giving, Estate Planning etc., etc., etc. Perhaps that plan was based upon the attainment of a certain size portfolio ...and perhaps that person managed to weather the fiscal crisis relatively well. Then they should be in good shape? Not necessarily true.

We're finding huge disconnects between old financial plans and the current economic environment in which we find ourselves. It's not that the old plans were inaccurate or erroneous; they were just created with the information available at the time. Information has changed and laws have been adjusted and updated for the current economy. Things are different now.

Consider this. Just a few short years ago, it was commonplace to see retirement plans using an assumed 6 to 8% IRR (Internal Rate of Return) on the fixed income portion of the assets. Today, actual yields have plummeted to a fraction of those assumptions. If you're lucky, you might be able to find a 1-year FDIC insured CD paying 1% (a). Another safe alternative could be U.S. Treasuries but a 10-year Treasury is only paying 2.2% (b). If a Retirement Income Success Strategy was based upon the assumptions I listed above, the cashflow from those holdings would be 60% lower than expected. Result? "We regret to inform you, you're out of money."

Solution? Get back in to your financial advisor and discuss Alternative Income strategies to shore up your cash flow needs. There are options available to savvy investors that can help offset the extremely low rate environment in which we find ourselves. These alternatives aren't without risk but have proven to be powerful alternatives. As always - do your homework. Stay educated, ask lots of questions and find out what options are available to you and your family.

According to:

BankRate.com

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