

The Magic 8 Ball and Your Retirement

By Greg Smith

Imagine if all of your questions about the future were answered, with the help of a Magic 8 Ball! Just think of the advantage you'd have in preparing for your retirement if you could predict the outcome of variables that affect your future:

- ✓ **How Will the Market Perform?**
Average long-term rates of return are one thing, but it's hard to know how the markets will perform this year, next year or at any point in the future.
- ✓ **What Will Your Personal Inflation Rate Be?**
Not only is it hard to know what overall price increases will be in the future, how will you know how it will affect you? Your personal inflation rate will differ year over year and even from that of your neighbor due to different expenses and goals — like tuition or healthcare.
- ✓ **How Long Will You Live?**
Another financial wild card relates to your life span. This will greatly affect the size of your required retirement nest egg. According to the Employee Benefits Research Institute, for a married couple retiring at the age of 65 in 2006, there is a 50% chance one spouse would reach age 92.
- ✓ **What Will Future Tax Policy Be?**
Tax policy will vary. It could be difficult to predict what taxes you'll face when you take distributions from IRA and 401(k) accounts, possibly decades from now.

Whether or not you have a Magic 8 Ball that can answer these questions, creating and maintaining a financial plan is still the best tool available to manage the things you can control and help minimize the impact of the things you can't.

Your Roadmap

A financial plan is like a roadmap into your future. It gives you a firm starting point, letting you know exactly where you stand initially. Then it guides you along the way to help you reach your destination, providing options to help manage the unknown. For example, tax fluctuations will remain a mystery, but a financial plan can provide recommendations for diversified account types, helping to minimize possible negative impact.

Like a roadmap, a good financial plan will give you a series of checkpoints, where you'll be able to measure your progress, refuel and make sure you keep heading in the right direction and at the right pace to make the journey a success.

Without a plan or vital checkpoints, it's easy to lose direction. Once your plan is in place, scheduling a review at least annually or whenever your life circumstances change is a good rule of thumb. Ongoing monitoring and maintenance will help ensure you are on the right track to your destination, providing a tool to respond to whatever life may throw your way.

To learn more about how a financial plan can help you reach your goals or to schedule a financial planning consultation or review, please contact me.



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Greg has been helping individuals and families develop personalized financial plans for the future since 1999. His areas of expertise include retirement planning, college funding and estate planning.