Transcript

Better conversations. Better outcomes.

Episode 1.5 – Creating a client's retirement game plan

Steve Williams - We feel that before an advisor can get into the financial aspects of retirement, they really need to focus on what is the client's retirement vision. We look at it as four corners of the picture frame.

Ben Jones - Welcome to Better Conversations, Better Outcomes presented by BMO Global Asset Management. I'm Ben Jones.

Matt Smith - And I'm Matt Smith.

Matt Smith - In each episode, we'll explore topics relevant to today's trusted advisors, interviewing experts and investigating the world of wealth advising from every angle. We'll also provide actionable ideas designed to improve outcomes for advisors and their clients.

Ben Jones - To learn more, visit us bmogam.com/betterconversations. Thanks for joining us.

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Ben Jones - A big part of the role of a financial advisor is helping people plan ahead so they can be financially successful for the rest of their lives. For many clients, retirement will be a big span of that future.

Matt Smith - We're talking today with Steve Williams about how to help your clients create a game plan for their retirement. Steve is vice president of financial planning delivery, and member of the BMO Wealth Institute. You'll hear Ben reference a paper that Steve wrote for the Wealth Institute in March of 2016. We're using that paper as a jumping off point to dig deeper into what it takes to successfully plan for your clients' retirement. To access the paper, visit bmogam.com/betterconversations. That's bmogam.com/betterconversations.

Ben Jones - Hard to believe that this is episode five of the Better conversations. Better outcomes podcast. And I want to take a moment to remind listeners that there's still two days left to enter our drawing for some nice blue tooth headphones. If you're listening to this episode soon after it was released, we cover all the details at the end of the episodes. If you've already given us a rating or review in iTunes or Google Play, thank you. It really helps a lot. Now here's Steve.

Steve Williams - Steve Williams. I work in the BMO Private Bank here in the US in Chicago. Been with the bank for 18 years. I head up our US financial planning delivery team. We have used the Wealth Institute, and before that, it was actually called the Retirement Institute. But we wanted to basically broaden that term to incorporate more concepts. We come up with very interesting thought leadership to use with our clients and with our advisors.

Ben Jones - And so, just a little background. Why was the Wealth Institute created by BMO?

Steve Williams - It's a way to deliver educational content to clients that are going to impact -- like I said, early on, retirement was the focus. And then we have broadened to other topics. But at the end of the day, it's education for clients.

Ben Jones - So now that we know what the Wealth Institute does, just a note, Dr. Abrahamson, from episode two, is also a Wealth Institute expert. It's all about education for clients. Now let's talk about the complexities of retirement planning and the events and questions that people, clients, and advisors alike don't often like to think about. You said that retirement is the greatest challenge of all those transitions. Why is that?

Steve Williams - Well, it's really complex. Let's face it: Accumulation planning is pretty straightforward. You have a pool of money and you're trying to grow it for a specific date in the future. Distribution planning, which is really what retirement comes down to, has too many unknowns. How long is it going to last? We'll talk more about longevity. How much can we spend on an annual basis? What if I have a healthcare problem, which tends to be a big wildcard for people. And you've got to factor in, what am I getting from Social Security, when do I take my required minimum distributions, or in which accounts, taxes, decisions on pension. We have a retirement planning checklist that we produced last year, and this is just financial questions. It has 52 items on it. So, again, very complex and, unless somebody's getting professional advice, we think retirement is really too complex for the average person.

Matt Smith - Wow, there are a lot of unknowns when it comes to distribution planning. I want to see that checklist you talked about.

Ben Jones - Yeah, it sounds pretty impressive doesn't it? Steve is going to talk more about that checklist and answer some of the questions that he raised later in the episode. Now let's move on to probably one of the biggest questions when it comes to retirement: When?

Ben Jones - I want to talk a little bit about the next kind of point that I picked up on your paper, which was WHEN people retire. And for all of the hand wringing and things we hear about longevity creeping up and people not being able to afford retirement because they're living so long into their 90s, 100s, etc., it was interesting to me that there was very small movements over the last decade in the average retirement age. You want to maybe -- do you know any reasons why or could you expand a little bit in your thinking there?

Steve Williams - Just in general, I think there's this perfect storm happening with retirement. People have gained a future hope that their retirement will look like the commercials in the TV. They're going to go travel Europe every year and visit all the sites they've dreamed about. But then, financial reality sets in and they're probably not able to do that. We see when people retire at 62, that there's several negatives to that. As an example, I mean, sure, if you can afford to, you can. But for those people on that cusp, retiring early has some negative benefits. You're missing out on some of your higher earning years in your career. If you retire early at that age, people are more likely to take Social Security early, which actually reduces their lifetime benefits by a great amount. And then there's also no such thing as early Medicare, so now they're having to fund their own healthcare for three years at very high rates if you've priced healthcare for somebody in their early 60s. So we do talk to clients about the importance of retiring at the right time, but yeah, 65, 66 does seem still to be the norm. We will model that out for people and say here's the financial cost to retire early, or even possibly working later. For some people, that might be the way for their plan, their financial plan to be successful is one of the levers you pull in that case is -- guess what, you'll have to work until 67, based on these projections that we have, to really have a legitimate chance of your money lasting for retirement.

Ben Jones - There's that commercial with old people doing yoga on the beach again. We heard Jack Kramer talk about the stereotype in episode four.

Matt Smith - I know. It seems like there's really a fine line between retiring too early and retiring at just the right time. Even with the average person living longer, it's interesting that the average retirement age hasn't changed that much.

Steve Williams - I think we're saddled with this unfortunate term called retirement, and I think over -- I've noticed, over the past few years, it's taken on somewhat of a negative connotation. In fact, there's even that ad now, I think, for a financial company that the person might say retire 20 times in a minute. I mean, they just keep hammering that home. I wish we could come up with a better term. In Spain, they call it jubilación, so it has a more positive tone to it. For some people, retirement is just the next phase of their life. And maybe they continue working, doing what they do. Maybe do it a little bit less from a work standpoint. But that's certainly a great way to go in retirement. That's going to keep you more active. It's going to keep you connected to your circle of comrades at work, and probably have better health benefits for you in the long run.

Ben Jones - What do you think causes so many people to just get excited about the idea of retirement?

Steve Williams - It points to whether they live to work or work to live, right? So if somebody's working to live, they're excited for retirement because now they can, in theory, do all the things that they maybe had to put off while they were earning that paycheck. But, again, I think reality sometimes sets in early on. Do I have enough activities to keep me busy? Am I going to be bored? How's the relationship with my spouse? There's a very interesting topic that happens with Japan, and they're ahead of us on the demographic curve, so their baby boomers have been retiring for a few decades now. There's actually a condition called *Retired Husband Syndrome* that's documented. And what happens is the wife gets stressed because the husband -- and this is stereotypical, but it's the case in this Japan study -- had all their time spent at work. So now they're home, following the wife around. She has to care for him, feed him dinner, all the things that he's looking to do and they get stressed out.

Ben Jones - Upset the equilibrium on the home front.

Steve Williams - Upset the equilibrium on the home front because they might have been spending a lot of time at their job and she wasn't seeing him. She has her own circle of friends that she's used to spending time with when he's away, and now things are changed. Divorce rates are growing in the age demographic of 60 and older. And also alcoholism. So for those that don't have other activities, sometimes they fall back on other substances that can be negative. Just not to their body, but also to their long-term health and mind.

Matt Smith - Let me just jump in here. I really want to point to something that Steve talked about. People can really get excited about retirement, and with good reason. But there's often a lot, socially, that people don't think about like their home life, activities, and those kinds of things. This is when Steve's checklist and the accompanying tips can make a big difference.

Steve Williams - Early on, I mentioned that we built out a process for that and we call it planning your vision of retirement. We feel that, before an advisor can get into the financial aspects of retirement, they really need to focus on what is the client's retirement vision. We look at it as four corners of a picture frame, so the vision for retirement is that picture. But then what goes around that frame, and it's -- we summarize as who, what, where, how. Who are you going to spend retirement with? What are you going to be doing in retirement? Where will retirement take place, because it might be multiple places? And then how might health impact retirement. We look at those four corners. You just focused on the what. Again, what are you going to be doing in retirement? That is so key because a lot of people have their self-worth tied up in their job. And then that job's no longer there. What does that mean for not only their well-being, but how can they replace those activities. One of the exercises that we recommend for the what are you going to be doing is fill out a monthly calendar ahead of retirement and see what those days look like for the client. Are they going to be volunteering? Are they going to be doing group exercise, like biking with friends? Is there part-time work on the agenda? Having that vision is so important because it will help the advisor, then, plan out the finances. Binge watching on Netflix might be a worthy goal and it's only going to cost you $8 a month, but if your goal is to play the top 100 golf courses in America, that's going to be more than $100,000. Different activities create different financial needs. Even more importantly, these are things that the advisor can lead to have the spouses, if that's the situation, discuss amongst themselves. We find so often that those things aren't discussed among the family. And then retirement rolls around and a month before retirement, the husband is thinking we're going to move to Florida and the wife is thinking, no, we're going to stay up north and stay with the grandkids and so we can help take care of them. And they haven't had that conversation.

Ben Jones - Creates some awkward kitchen table moments huh?

Steve Williams - It does and it creates some problems with the planning for retirement. So we think the advisor can help that scenario by leading that discussion between the two spouses and covering those four aspects.

Ben Jones - How often would you recommend that advisors revisit that retirement vision for their clients along the way? Say they start working with an individual at 35 and they work with that individual up through retirement. Is there a time that the advisor should check in or does it just happen constantly?

Steve Williams – Well refer back to the retirement checklist that we have to answer that question. So we divide that checklist that has 52 items along a timeframe. So the things that you're going to want to do every year, review your credit reports, your asset allocation, etc. But the things you want to do maybe five to ten years before retirement, one of those is creating the vision for retirement. And then you're going to want to review and revise your retirement goals. Those can change. We'd like to think there's an annual review with our top clients that's taking place and those are the times to find out what's changing, what are some of the life scenarios that might have happened that are going to impact the plan.

Ben Jones - So it sounds like within inside 10 years, you want to revisit that every year at a minimum. So through the quarterly planning cycle, at least one of those meetings, you want to revisit this financial vision.

Steve Williams - Correct. At least, annually, I'd say.

Matt Smith - Let's talk more about the how of those four corners. How might health impact your retirement? You can plan all you want, but a major health event often changes the course of retirement. So while it's important to make plans and understand the client's vision, you also have to think about those what-ifs.

Ben Jones - Something that really rang true to me was this kind of chasm that exists in the role that health plays in the actual retirement date of an individual. And of people that were retired, 30% of the individuals you surveyed cited health, family health reasons as the reason that they did retire. Whereas the people planning for retirement, only 15% cited this as a possibility. So how can advisors help their clients become kind of aware of this scatoma or blind spot that exists in pre-retirees?

Steve Williams - To me, that's just quite simply education when it comes to healthcare. It shouldn't be a surprise. It's nearing a 60% chance that someone over 65 will have a long-term care event. It's typically not a matter of if but when for the majority of people. When you think about the cost of long-term care, depending on your location, nearing 80,000 to 100,000 a year if you have to go in a facility, that's something that needs to be planned for, particularly again since it's growing at a faster rate than inflation. We usually factor in 6% to 8%. To me, it all boils down to education. What's going to happen if you have a health event, if you're planning on your spouse to take care of you? Are they prepared for that? Is it your kids? What are the services available in your area? We feel that this is a huge area that advisors need to be knowledgeable about is care giving and making sure that they understand all the different aspects to it.

Ben Jones - Yeah, it's very complicated having some personal experience with both assisted care as well as the need for 24-hour care. Not only is it expensive, but at the time when it happens, you're not always in the right emotional state, or your caregivers, too, to make those decisions for you. Planning seems like a very good way to get comfortable about what's going to happen in the future.

Ben Jones - How do you suggest that advisors really kind of confront the brutal realty with their clients around those issues?

Steve Williams - They really should just focus on the risk. I look at the four main risks. One is longevity. There's a 50% chance for a couple that are 65 years old, that one of them will live until 90. So when we do our financial planning modeling, we have 90 as our default and sometimes will even go past that. Longevity is a huge concern. Sequence of return risk is another one. You mentioned, hey, I'm just going to have my money. It's going to grow over time. What if you retired in 2007 and right away you were down 40% or whatever your asset mix might have been, to create a huge negative return in the first couple years of retirement? That has a huge impact on whether that money's going to last for the rest of their life. Again, back to the healthcare. That's the other big wildcard. Is there going to be a healthcare event that is going to drain the retirement nest egg? And then, lastly, inflation. Talking about the threat of inflation, that's a situation where you can't get too conservative because if you put all your money in bonds, with the rates that we have now, you're, in effect, going to be losing money in real terms over your retirement years. Those are the four main risks that we try to focus on with clients for their retirement assets.

Ben Jones - You mentioned that it's not just planning for the ideal scenario, but helping kind of think through catastrophic health impacts. I thought this was really important. It kind of reminded me of stress testing the plan a bit and how could advisors really stress test plans and what are some of the mechanisms to immunize some of these tail events?

Steve Williams - So, when we engage in the financial planning, we do the normal Monte Carlo stress testing, which is just looking at randomized returns of the assets. But we also have a piece that's called what you are afraid of. And it will basically go through what-if scenarios. What if you receive less Social Security than you think you're going to get? What if you have that long-term care event and it's X amount of dollars in a certain year? What if you live longer than you expect? And what if your returns are less than you think? When we stress test the plan, we'll move levers back and forth to change those aspects and then see what that does to their probability for success.

Ben Jones - Advisors kind of go through this process of if-then planning with their clients. So if you go through this process of if this, then this, they're going to come up with some scenarios that look pretty bad. How does the advisor and the client then get into a discussion about some of the ways to mitigate that?

Steve Williams - Well, a lot of the plans look pretty good even when you factor in a few more years of longevity or maybe a slightly lesser return. But what tends to really decimate a plan, in my experience, is the healthcare costs. Again, it points to what are the possible solutions to address that future -- I don't want to say inevitability, but future risk that someone in the family is going to have a health care issue that you're going to have to put some serious money to. So, it tends to lead to a solution that can mitigate that risk, so that's why we think it's an important conversation.

Ben Jones - Interesting. And those solutions generally come in the form of insurance or are there other ways to go about it?

Steve Williams - Typically, some form of insurance. So some type of long-term care, whether it be a rider on a whole life policy or some of the asset based long-term care.

Ben Jones - And outsourcing the risk to someone else, essentially?

Steve Williams - Definitely.

Ben Jones - Now that we've covered the serious aspects of planning for health events and confronting the four main retirement risks, let's talk about how to have those conversations with clients. Some of these topics can be challenging to talk about, but as an advisor it's crucial to your role that you facilitate these hard conversations so that you can help your clients achieve the best possible outcomes.

Ben Jones - I want to shift gears just a little bit and talk about what our audience can do to help their clients successfully game plan for retirement. So in the paper you talk about successful retirement as having kind of 3 keys to doing this right. I was wondering if, for our audience, you could talk a little bit about each of those.

Steve Williams - Sure. So the 3 keys that we list in the article are Purpose, People, and Perspective. So, for the Purpose it's what matters to you now. How I would look at that is how will you spend your time? It might be volunteering, so somebody very active in their faith community might be working closely with that church and volunteering, going on missions, whatever the case may be. If that's their purpose then they should identify that and plan for that in retirement. The People is huge. They've done tons of study on the role of social interactions. We have a seminar that we do called Living to 100 --

Ben Jones - In fact, Dr. Alexis has been a guest on our program.

Steve Williams - Oh, she's been a guest on the program. Great. So she might have been talking -- and I look at them as the Four Fs, she might have done a different heading, but I look at Fitness, Family, Fun, and Financial. But as pointed out in the paper, the social interaction is very important for your mind and your body, and how often we heard the story of the 85 year old widow that dies a week after their husband or wife does because they were together for 60 some odd years and that might have been their only social interaction. So it's very important to be, from a People standpoint, involved. Interacting with other people, again, part of clubs, having something to look forward to, somebody to talk to is huge in retirement. The Perspective, this gets back to what we had discussed earlier. Having a proper perspective for retirement. You might not be buying that $1M condo on Miami Beach, but are you going to be set up financially for a retirement life that fits your needs and goals.

Matt Smith - So Purpose, People, and Perspective. Those are the 3 keys to a happy retirement. Make sure your client feels like they have a purpose in their retirement, and people they can socialize with other than a spouse or immediate family. And make sure they have a realistic perspective on what they will and won't be able to do during their retirement.

Ben Jones - Are there some specific questions that you might suggest that our advisors can work into their fact finding to help assist with the good planning and getting really to the meat, or the heart, of the financial vision?

Steve Williams - Definitely. It does relate to the vision -- two main areas: What are your expectations? So this gets back to the Perspective. That might be travel, again that's a stereotypical example. Starting a business -- some people have that dream that when I retire from my day job I want to set up a shop and do small engine repair or whatever the case may be. Moving to a new home. So whether it's a second home or replacing the home and moving south or to a warmer climate, and then helping others. So there's a number of different expectations that the client might have and it's important, again, to get those on the table. Leave that discussion if it's a spouse situation. Then what are your concerns. So a lot of people that I'm not going to have a paycheck anymore, where does my money come from? I want to leave a legacy, do I have enough to do that? What's the cost of health care? Am I going to be bored? Are we going to spend too much time together? And my parents might need care, so not only am I still raising kids but now I have to be a caregiver for my parents. So it's important to look at both the expectations and concern, and then when you're done with the financial plan tie back any solutions you have to the client's concerns and make sure they're being addressed appropriately.

Ben Jones - Do you recommend having that conversation with both spouses and are there some ways, or techniques, to draw out kind of the conversation without having at times some uncomfortable, heated --

Steve Williams - Yeah. You definitely need to be sensitive and every advisor should go into it eyes wide open. But if you're not having that conversation somebody else will, and again you really can't have the financial planning conversation without getting into that conversation with clients. So I would recommend just have those broad questions. Include both spouses. Historically, that's been an issue where we might have an advisor that's just talking to one spouse or the other and ignoring the other person. So be as inclusive as possible. Get both sides of the scenario. In fact, our financial planning software now has the opportunity for each spouse to list their main concerns. So that's a way to get that discussion going, because one spouse might say well my concern is not having a paycheck, and the other spouse might then offer I really want to leave a legacy to one of our kids and that was not known in the family. So it gives you that opportunity to further the discussion.

Ben Jones - There are several ideas to jump start retirement game planning conversations today. Like the retirement vision. Getting to the heart of your client's retirement vision is a great starting point on the path to planning successful retirement living. As Steve talked about, it's important to make sure that expectations are clear and realistic, and that their concerns are both validated as well as addressed. Once those expectations and concerns are known, you can point to them in the financial plan, which will tie everything together and make your client both more confident in you and the plan you've created for them. For show notes and links from the episode, as well as a look at the checklist Steve created, visit BMOGAM.com/betterconversations. That's BMOGAM.com/betterconversations.

Matt Smith - We mentioned earlier that we're holding a give away to reward some of our early supporters of Better Conversations Better Outcomes. To enter the drawing, simply leave a review of our show in iTunes. We'll randomly select three user names from the reviews and announce those winners during our show on September 26th. If you are unfamiliar with leaving reviews, you can find a quick tutorial in the show notes with step-by-step instructions. Don't forget to subscribe after you leave your review, and be sure to tune in to future episodes, especially September 26th, to see if you were selected.

Ben Jones - Thanks again to Steve Williams for joining us on the show, and many thanks to the people behind the scenes. Jonah Geil-Neufeld and the Freedom Podcasting team, as well as our team here at BMO; Pat Bordak, Gayle Gibson and Matt Perry.

Ben Jones - Thanks for listening to Better Conversations Better Outcomes. This podcast is presented by BMO Global Asset Management. To learn more about what BMO can do for you, go to BMOGAM.com/betterconversations.

Matt Smith - We hope you found something of value in today's episode, and if you did we encourage you to subscribe to the show and leave us a rating and review on iTunes. And of course the greatest compliment of all is if you tell your friends and coworkers to tune in. Until next time, I'm Matt Smith --

Ben Jones - And I'm Ben Jones. From all of us at BMO Global Asset Management, hoping you have a productive and wonderful week.