STIFEL

# MAINTAINING LIFESTYLE AFTER YOUR CAREER

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## Get Real – About Costs

You've carefully considered life after your career and have determined that you will be able to find new challenges, ways to use your experience and knowledge to make a difference, and a pathway designed to enable you to finish well. Terrific – while finding the right answers to meaningfully live your Life II (your bonus years after retirement or sale of your business) might pose the greatest challenge, there is still much to be done to make it possible. Key to enabling this future will be creating a financial analysis, reviewing expected expenses against income sources as well as the assets you'll be counting on to make up any shortfalls to meeting your planned investments in community organizations and gifts or loans to family members. This is the heart of what a good investment plan should assess for you (along with tax consequences, risks, survivor's lifestyle, and estate plans).

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Income sources, including note payments, Social Security, pensions, and rental income may be well known and, thus, easy to build into your plan. Getting an accurate tally of expenses needed to be met in the future may be more difficult. Have you done personal budgeting to know where your money goes now? Has the company paid for health insurance, car allowances, or entertainment in the past? – Not any longer. Do you have a good idea what your new travel and vacation plans will cost? And are you realistic about the potential for substantially greater medical expenses as you get into your 70s and 80s? Formulas that say the typical retiree will need 80% of pre-retirement income to live on might not be even close to what you have planned. So, before you do anything else, work on getting an accurate idea of what your expenses will total during this Life II, so that your planning starts with "good input" (you might know what happens when working with "bad input"). In order to pursue significance in Life II, you must get real – about costs.

## Double It – Inflation Still Counts

So if you've been realistic and comprehensive in your budgeting for future needs, you can determine pretty easily the shortfalls needed to be made up from your investment portfolio's income or yield, right? Unfortunately, no. Though broad inflation (as measured by the Consumer Price Index) has been very low for quite a while, it would be dangerous to assume it will always stay low. And we don't even want to start talking about medical costs inflation.

Now consider this: If inflation averages – for all your planned expenses – just 3% per year, your budget will need to double to meet your expected lifestyle during Life II (24 years). And if this is true, the value of the bequests you intend to make to charities or family members will also fall by half. So planning for future inflation – doubling what you've budgeted – must be a key element of a sound investment plan.

### The Good News Is You're Living Longer; The Bad News Is You Have to Pay For It

As described in From Success to Significance, prior generations never planned on long post-business (or retirement) time horizons. They expected to work until they were worn out and needed rest. And that is what they did for the five or ten years after their career ended, when the toll of all those years caught up with them and they passed on.

Nowadays, living to 85 or 90 or longer is not uncommon. With fewer jobs involving hard labor or significant health risks, and with the advancements in medical care, nutrition, and exercise, most seniors today live significantly longer than past generations. So, while some will continue to work late into life, those ready to leave the business world in their 60s have a reasonably long Life II to consider.

That's the good news. The not-so-good news that comes with this is that you have to pay for all these "bonus years." Inflation will boost annual spending requirements, but we also need to recognize that longevity is another liability that must be addressed in order to pursue significance in our second halves.

### Laying the Ground Work

Despite considerable future expenses that will have to be met, with inflation potentially doubling these expenses over a 25+ year time horizon, developing confidence in your ability to pursue a meaningful Life II – securely for you and those depending on you – is a reasonable expectation.

A meaningful and secure Life II may be achieved if your team includes an experienced and capable financial advisor able to work with the others to develop models for your future incorporating their expectations for the sale of your company, the tax consequences you'll face, and conservative assumptions for the future. These models will allow for assessments to be made regarding the future under a variety of scenarios, including the potential to minimize taxes using a careful approach to handling your retirement funds. Finally, with comprehensive investment planning completed, alternatives reviewed, and strategies decided upon, the former executive will be able to move seamlessly into post-career plans rather than losing any time or investment income.

Many former corporate executives approach a financial advisor to start these analyses once retirement decisions have been made. While better late than never, much more value would be received if this work began well before the target date is set. The opportunity to save significantly on taxes and make better decisions that will affect the family's lifestyle for years to come may be missed by postponing the inclusion of skilled investment planning help.

### Mitigating Risks

Of course, the world doesn't always work out as smoothly as we'd like. Personal and health problems, economic cycles, investment market volatility, changes in tax laws, and other surprises can side track the best financial plan. Risks are a part of life, and they won't leave us in Life II either. So, make a concerted effort with your advisor team, including insurance professional, to detail potential risks and to quantify the impact any one may produce. Many risks can be mitigated with good insurance, which is part of any sound financial plan. Some newer and less considered risks, such as longevity risk (as defined by the effect on income and meeting expenses), can also be mitigated using insurance products. Tax planning may help address the potential for changing tax laws to adversely affect finances. And when investing, short- and long-term risks need to be appropriately understood so that reasonable strategies, including broad asset class, markets, and security diversification, can be incorporated and followed over time.

Understanding that the future is uncertain, that life presents unexpected twists, and that no one can guarantee all results under all circumstances will allow you to more confidently pursue reasonable outcomes for the years ahead. Taking reasonable precautions to mitigate risks should allow you to maintain your lifestyle and pursue significance after the business is gone.