Montgomery MAGAZINE

June 13, 2013

REALIZING YOUR RETIREMENT DREAMS IN MONTGOMERY COUNTY WITH A SOUND FINANCIAL PLAN

Top Qualities to Look for in Choosing a Financial Planner

By **Clark Kendall**

A good financial planner in Montgomery County, Maryland, can be expected to know the rules of financial planning and help his or her clients efficiently and effectively reach their retirement goals. He or she should be able to illustrate a retirement planning solution for differing retirees, looking at short-term, mid-range and long-term needs and challenges. The financial planner should also be prepared to help clients honestly map out pros and cons of alternative investment strategies. The first step is a thorough assessment of a client's current household financial situation.

The financial assessment should look at characteristics of a client's assets. From real estate to stocks, bonds, mutual funds and exchange-traded funds (ETFs), the financial planner should assess the taxable or non-taxable nature of investment accounts along with the cost basis (i.e., original cost) of real estate and stocks. The assessment should also determine if assets are in a qualified retirement account such as an IRA or Roth IRA, 401(k) or 403(b) plan or a Federal Employees Retirement System (FERS) account, and if pension income is coming from a previous employer.

(continued)

Helping retirees gain an understanding of their retirement dreams and goals is the initial challenge. A Montgomery County financial planner should point out the pros and cons of a retiree wanting to stay in our relatively high tax county. Then the financial planner has to guide retirees in recognizing if they have enough money to meet retirement goals.

Recently, a young retiree, age 60, let me know that he wanted to leave a major U.S. corporation. He had been given a bewildering set of retirement options: partial lump sum payout, annuity payout for his life only, payout for his life and his wife's life (she is age 52), or a payout with an integrated Social Security option. We ran many "what if" scenarios to come up with a combination strategy. We took into account his intention to find another job, his wife's desire to work and potential wedding and college expenses for their children. We recommended a $400,000 lump sum payment, rolled into an IRA account, plus a $4,000 per month annuity for his life with 50 percent going to his wife after his death. Additionally, since he is just two years away from receiving Social Security benefits, we recommended holding off because his monthly benefit will increase approximately 7 percent per year for each year he waits to receive benefits after age 62.

The above is an example of a recommendation made with the client's best interests in mind. Clients should expect a financial planner to monitor their financial plan moving forward, too. Monitoring the markets, interest rates and tax changes is very important.

Personal and family factors affecting the individual, especially health concerns, financial needs of children and grandchildren, and how the retiree intends to deal with them are also important. Monitoring these factors is what helps a financial planner keep a client's financial house in order.

For example, a 78-year-old retiree had approximately $900,000 worth of investable assets. With her monthly pension and Social Security benefits, she needed an additional $1,500 per month to meet her current monthly living expenses of $2,596. This retiree needed to ensure that she could meet these costs, handle any unexpected healthcare needs, and maintain long-term purchasing power so that she might pass down an inheritance.

The recommendation here might be a three-pronged asset allocation. Cover current living expenses for the next four years by investing 10 to 20 percent in fixed income securities. Meet mid-term living expenses (five to 10 years out) by investing 30 to 50 percent in common and preferred stock. Long-term income needs, as well as maintaining purchasing power of the underlying assets to pass wealth down her descendants, could be covered by investing 20 to 30 percent in growth and value mutual funds.

By choosing to work with a Montgomery County fee-only advisor—a professional who does not profit from particular investment products—the client can expect that the financial planner will have his or her best interests at heart. A financial planner should design an effective retirement planning solution that addresses the retiree's specific "bucket" issues —putting retirement savings into the right areas and spending money out of the right "buckets" in order to have sound retirement security.

Clark Kendall, founder of Kendall Capital Management in Rockville, Maryland, has more than 30 years of experience in investment management and wealth management strategies. He is one of a select few professionals in the world who has earned the triple designations of Chartered Financial Analyst (CFA), Certified Financial Planner (CFP) and Accredited Estate Planner (AEP). Kendall focuses on providing independent financial direction to Middle-Class Millionaires in and around the greater Washington, D.C., area.