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Financial Planning For Senior Executives (Part 1)

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Senior executives often face conflicting financial goals in their personal lives. This article introduces a 4-stage financial planning process that harmonises their goals.

The article is broken into 2 parts: Part 1 is found in this issue and Part 2 the next. The article is written in a style as to address the senior executive directly.

THE LIFETIME FINANCIAL ROADMAP

As a senior executive, you've achieved a measure of success at work. The financial rewards afford you a certain lifestyle and options not available to many others. To list some: expensive cars and holidays, property upgrades, sending your children overseas for education, and giving them a material head-start in life.

Yet the position is also demanding. The need to attain ever-increasing KPIs requires you to work long hours and travel. The spectre of being made redundant adds to the stress. More than once, you wonder when you'll be able to finally call it a day. If at all.

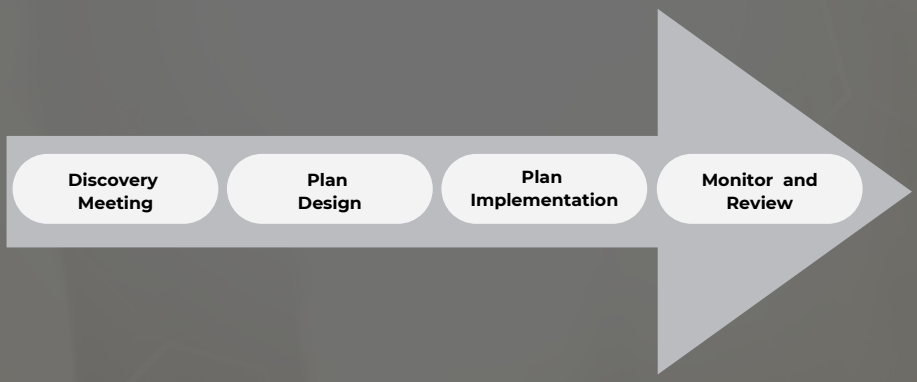
The problem is that between work, travel and family responsibilities, there's barely time left for you to develop a coherent plan towards retirement. Or to acquire the skills necessary to invest well. Investment then becomes adhoc – and notwithstanding the patchy outcomes – you hope somehow things will turn out fine. Except... hope is not a strategy.

To be successful in personal finances, applying the same strategic process that you use at work is essential. A comprehensive financial plan – one that factors in your values, goals, priorities, current and future resources, options and personal/family preferences – must be developed. Then executed with great care and tracked closely, making appropriate adjustments as needed along the way.

The Lifetime Financial Roadmap offers such a process. It helps organise your money so you can work towards those goals that you deem most important. Those already on it appreciate the clarity, confidence and peace of mind that the process brings.

We hope you will too.

The Lifetime Financial Roadmap consists of four stages, each typically requiring an hour of your time to meet.



In a nutshell: The Discovery Meeting helps us understand the things that matter to you – and how far you are to attaining them. Plan Design is about closing this gap. It computes how far your desired goals – such as saving more money or a property upgrade – can bring forward or delay your retirement. Weighing this difference against the stress level you face helps you make an informed decision about these goals. Plan Implementation uses world-class solutions to turn your plan into reality, while Monitor and Review allows you to track your progress towards your goals.

STAGE 1: DISCOVERY MEETING

We begin by understanding you. We want to know about your situation, about your dreams and fears. Dreams for the future, dreams for your children. The worries that keep you up at night. And especially, we want to know about your values. Because we know that until a person's life is lived in alignment with his values, he's likely to experience a naggy sense of unease. But when values are clear, coming up with meaningful life goals become easy. And these goals we will help quantify.

Knowing how your values stack against each other is also important. In the event not all goals can be met given limited resources, priority is accorded to those arising from your most important values. Or the goals modified so more of them can be met. The conscientious financial adviser must at the same time maintain strict neutrality as he facilitates – careful not to influence the client's decisions based on his own beliefs and values.

Having quantified your goals, to guide you towards them, we need to know where you are currently. In addition to your assets and liabilities, how's your cash flow? The cash flow indicates how much you can save. A detailed cash flow also helps determine more accurately your retirement income needs.

From experience, most people grossly under-estimate how much they will spend in retirement. One reason is that they may not even be aware of how much they're actually spending presently. Or they think they can live on much less once they've stopped working. Yet if one has become accustomed to dining out several times a week, chances are that he'll want to continue doing so even when retired. To derive a more realistic figure, creating two budget plans in parallel – one for now and another when retired – would really help.

You would probably have noticed that up to now there's not a single mention of product. Doing so at this stage – before the adviser has obtained a clear understanding of your goals and devised a plan for reaching them – is not in your best interests. A good case in point is an expensive child education policy: certainly an easy emotional sell to any proud new parent. Unfortunately, the same parent will now also have far less resources to contribute towards his retirement and other goals.

STAGE 2: PLAN DESIGN

This stage is about designing a plan to move you towards financial freedom. Which we define as having enough money to last your lifetime even if you should stop work totally. Work at this point becomes optional. You work because you like to, no longer that you have to.

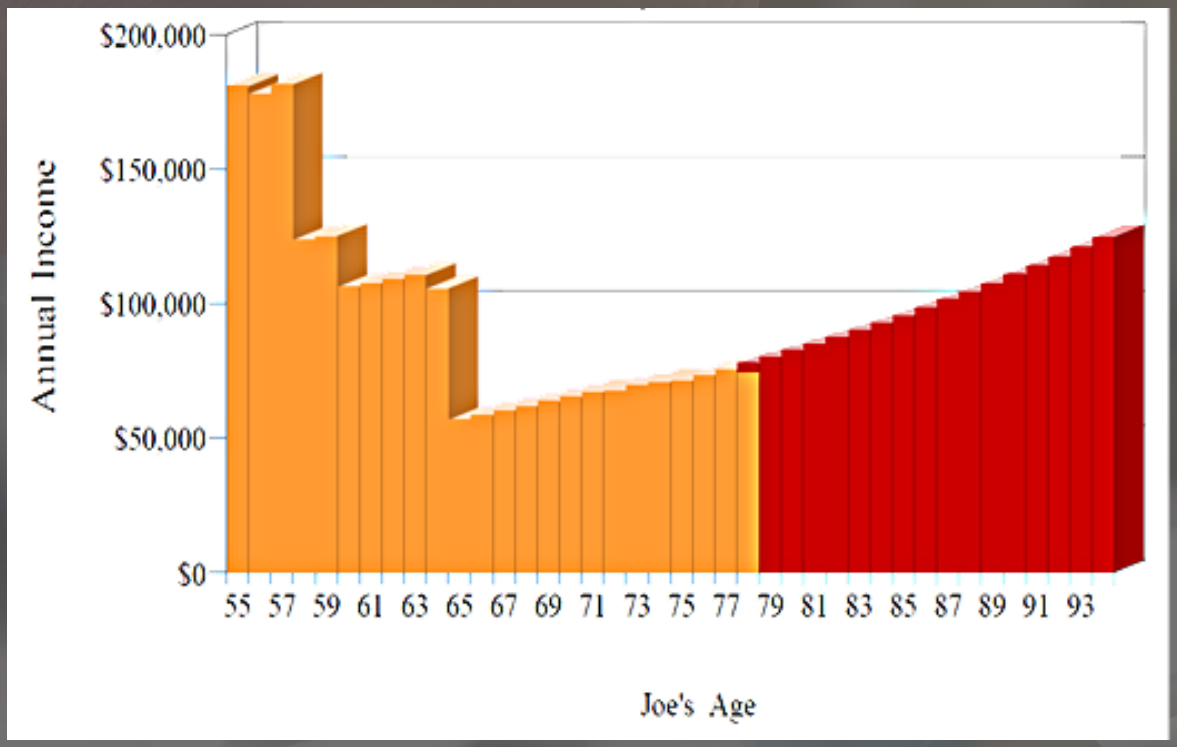
Designing the plan requires you to weigh between options and trade-offs. Depending on your specific situation, values and goals, the following are some issues to consider: When can I retire? Can I afford to upgrade my property? Size and location? Local or overseas education for the kids? Lifestyle aspirations? Am I saving enough? What if I should lose my job? And so on.

A good financial planning program will show you how many years these goals – individually and in combination – will move your retirement age forward or backward. You can toggle them around by modifying and even discarding some until you reach an age that you're comfortable with – where you know you'll no longer have to worry about running out of money. This now serves as a financial guide for the rest of your life, yet amendable to any subsequent changes in your circumstances.

Data that you share earlier at the Discovery Meeting are first entered into the program. These data must be accurate and complete for the output to be meaningful. The data include your personal and financial information, and also your quantified goals. As an example, the following is the initial analysis of someone that we'll call 'Joe'.

Joe has the following goals:

- Pay off housing loan by 65
- Finance children's university education, some overseas
- Retire at 65
- Holiday every year with family
- Help pay down-payments on the children's flats
- Continue with car ownership for fun drives to Malaysia and Thailand
- Bequeathal



The portion in red shows when money will run out; in this case fourteen years after Joe's retirement. The objective is to remove the red portion completely. (And in case you're wondering… the graph slopes upwards due to inflation.)

FOUR WAYS TO CLOSE THE GAP

There are broadly four ways to close the gap, the first three being preferred as you have more control over them. These should be considered first:

Work longer

Save more

Spend less

Invest the money

Working longer means you've more years to accumulate assets and less years that you'll need to rely solely on them to fund your living expenses. Given though the high stress level faced at work, many executives would rather retire "yesterday".

Saving more is another option. Divide your expenses into two categories: fixed and discretionary. Examples of fixed expenses include your mortgages, utility bills, school fees and hospitalisation insurance premiums; these expenses are unavoidable. Discretionary expenses are more flexible – you decide what can be reduced or stopped so more money is saved.

Spending less in retirement also makes your money last. Similar to saving more, you decide what expenses you can do without. Note though the tendency to under-estimate the amount needed for retirement. Creating this budget plan in parallel with the one above helps you project a more realistic figure for retirement. This decreases the risks of your being under-funded.

The last option is to invest your money. It's least preferred of the four as the market is not within your control. Having said that, there are time-proven investment principles that you can use. When implemented well, these can make a significant difference to your overall situation, perhaps even allowing you to retire earlier. We'll touch on some of these principles as we go along.

Let's see how the option works, again using Joe above as the example. Supposing after making changes to his goals in the financial planning program with the first three options, Joe still falls short of reaching them. To reach them, he must earn a better return on his money. Further manipulation of the program determines this return to be... say 4.6%. This may be achieved with an investment portfolio consisting of various types of assets such as stock and bond.

How the portfolio is constructed will be examined at Stage 3 of the Lifetime Financial Roadmap process. Before doing so, let's consider a major question in retirement planning.

How long can you expect to live?

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