Professional Financial
Purposeful Wealth Management

Wealth Planning Report

Mitigating Difficult Financial Surprises

Birthday surprises can make for truly special moments. But what about financial surprises? Some may be special, but many are memorable for reasons you would prefer to forget.

Sure, it's possible that the unexpected surprise could be an inheritance or an early-stage company you purchased as a flyer and then became a unicorn. But for the most part, money surprises related to property and investments aren't occasions for a party.

The good news: With financial planning foresight, you can sidestep a multitude of money surprises ranging from a minor inconvenience or temporary cash crunch, up to a crisis threatening your family's livelihood.

Keeping this in mind, let's consider a few common surprises that affluent individuals and families frequently experience at later life stages—along with ways to mitigate their negative impact. While we always hope for the best, let's look at planning for the worst.

Retirement Planning Issues

Surprises are particularly painful when a regular paycheck is no longer received—and instead you rely on a fixed amount of savings and investments. Large financial surprises in those situations are especially feared. Without a steady income, other than Social Security, loss aversion from a sudden large, unexpected loss can cause you considerable distress.

1. Taxes higher-than-withheld. Many retirees expect taxes to be lower after they're no longer regularly employed and withhold less. While taxes may be lower, the opposite more often occurs—with as much tax expense as before, even during retirement. Many forget that Social Security benefits are taxable, or they get withdrawals from more than one retirement account (say an IRA, 401k, and a deferred comp plan) without coordinated tax withholding. To avoid this problem, estimate your total earnings from all sources for the year as they relate to tax brackets at different income levels. Sometimes a partial conversion of a tax-deferred IRA account to a Roth allows *tax-free* withdrawals and helps manage tax brackets better.

2. A longer-than-expected life. Living a lot longer than do most people should be a good surprise. With good health, it probably is—unless you've not funded your essential lifestyle generously far enough into the future. Living to 100 is not far-fetched, especially for the affluent: medical advances along with sensible diets and exercise are rolling back bodily clocks one year per decade—and bioengineering promises more cures. A wise approach for most female readers of this report is to plan for a long rather than an average life span.

3. Increased personal spending. Many pre-retirees imagine their living expenses will magically reduce once they retire without the daily costs of working. Except for big costs like a mortgage that ends about the same time, expenses typically remain the same as when they were working. More likely, with a lot more time and the health to do more things, people tend to spend *more* money in their early retirement. Furthermore, uncontrollable forces such as another surge of inflation or nasty health changes or the need to help a divorced child, could increase your cash outflows far more than anticipated. The upshot: Don't expect to live cheaply in your golden years without first planning for a serious housing adjustment.

'Life Happens' Surprises

The number of tasks to be managed daily can become overwhelming as age advances. Many financial surprises happen due to carelessness or neglect. Watch out for these:

1. Overlooked payments. The fees you occasionally pay for overdue bills and credit cards won't jeopardize your financial security. But easy reminders can be put in place that can ensure you don't forget those recurring financial obligations as you get older. Set up account alerts of upcoming payments due via text or email. Schedule online payments for recurring bills. Further, schedule a regular day/time each week to pay all those *other* bills.

2. Home repairs. A fallen tree, a flood, a fire—life happens. Or maybe that older roof you've meant to replace has leaked. An adequate reserve fund for such situations is vital. So is having the right type of homeowner's insurance for you. That goes double if you have two (or more) homes in different states, and if they are covered by different insurance companies. Or say your home uses expensive or unusual materials: does it allow for replacement cost coverage? Do you have a co-insurance issue? If the unexpected happens, rebuilding or reconstruction could easily exceed your policy's coverage.

3. Lawsuits. For those with accumulated wealth or high earnings, you could be targeted by people who look to unjustly take your assets. The liability insurance of your home, auto or umbrella liability policy may not be enough. Asset protection planning could legally shield your assets from future lawsuits and creditors. However, it's essential to put asset protection plans in place *before* you are sued. Even those with plans need to review and update them every few years to reflect changes to your bottom line or your risk exposures.

Conclusion

CFP® professionals with a holistic, integrated view of your financial life has staff that can help you plan better for financial surprises such as those we described. Additionally reviewing your reserve fund, your various insurance policies, your legacy arrangements, and coordinated planning related to saving and spending before and during retirement, needs addressing at least annually, in addition to the usual investment-related matters.

If you're unsure how well protected you are from financial surprises you haven't even thought about, consider a discovery meeting to stress test your current and contingent arrangements to see what are your financial outcomes under various scenarios. That way, you'll know whether are in good shape—or how urgently you need to get your financial life on track in order to enjoy what should be your golden years with financial security.

This is an executive summary of our wealth management ebook.
For a complimentary copy of our complete report, please contact us.

Paul Byron Hill, MBA, MFP, MSFS, ChFC,® WMCP,® CFP® is a nationally recognized Certified Financial Planner™ professional and Wealth Management Certified Professional,™ written about in *Fortune, Forbes, Bloomberg Businessweek,* and *Money*. Paul is the co-author of *Retire Abundantly*. Reuters AdvisePoint once recognized Mr. Hill as one of 500 "Top Advisers" in the U.S. and featured him in an interview on their website.

Paul founded Professional Financial Strategies, Inc. in 1993 and eventually became a fee-only planning firm specializing in retirement and wealth management for affluent and aspiring families. Paul is a trusted financial fiduciary acting in the best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award, and featured him with others in *The Wall Street Journal* and elsewhere.

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