More than Enough Money

by Jonathan Guyton, CFP®

Jonathan Guyton, CFP®, is principal of Cornerstone Wealth Advisors Inc., a holistic financial planning and wealth management firm in Edina, Minnesota. He is a researcher, mentor, author, and frequent national speaker on retirement planning and asset distribution strategies, and a former winner of the Journal of Financial Planning's *Call for Papers competition.*

When I moved to Minnesota some 25 years ago, a colleague offered sage advice for my first winter: when you go for a walk, start out into the wind. Lately, I've been thinking about the differences between going "with the wind" and "into the wind," and relating them to our work with clients.

Choose your own obstacle metaphor. Into the wind. Upstream. Uphill. One step forward, two steps back. Against the tide. Now consider how often clients are prone to go in such a direction and how much effort we devote to turning them around in service to their goals and values.

Again and again, clients need us to communicate in ways that range from simple to savvy to sophisticated. "Buy low and sell high, remember?" "Save more and spend less." "Take a step back to see the big picture before you make your next big financial decision." "That stock doesn't know you own it." "Deferring taxes today can force your survivor(s) into a much higher tax bracket down the road." And, "Sometimes the biggest short-term risk isn't the one that can wreck your long-term train." What else should we expect at times from clients who are human (just like us)?

I write these initial paragraphs to contrast such times when our work involves confronting these familiar forces with those times when we can harness them and help our clients to go with the wind. What client's life is not more fulfilling, more successful, more enriching when forces that once offered resistance now propel them forward? It's literally 180 degrees different!

Analytical and Behavioral Forces Converge

Relating this to the analytical and the behavioral forces of retirement income planning leads me to an inescapable conclusion: it is exceedingly likely that many of our current and future retired clients will leave behind more money at the end of their lives than they can possibly imagine today.

This will be the case for many households, and it will be a great deal of money—far more than the baby boomer generation is now inheriting. Most of these retirees have very little idea of its likelihood and potential significance. This is because there is possibly no area of financial planning where the behavioral and analytical forces move so strongly in the same direction.

How can this be? Let's start with the analytical forces. For starters, retiree nest eggs only come in two sizes: more than it takes and less than it takes. Virtually all financial planners, regardless of their approach, work with clients to implement an ongoing plan designed to provide a sustainable lifetime income. Those who base their advice on empirically tested methods and help their clients abide by them put these clients on a path where "more than it takes" is nearly a bullet-proof outcome, the hedge requiring a series of events more severe than the Great Depression to cause the plan to crash. How much more? In his June 20, 2011, blog post "What Happens if You Outlive Your Safe Withdrawal Rate Time Horizon?" Michael Kitces pointed out that in 30-year distribution scenarios using the highest initial withdrawal rate consistent with 100 percent success, 96 percent of these scenarios had a higher terminal value than on their start date; the median ending value was 4.6 times higher than its starting value.

While helpful to have these numbers, they aren't really surprising because safe withdrawal rate research is by definition calibrated to work even in the most challenging environment; however, they are a good starting point. Of course, these results assume a constant real distribution level and ignore the little things clients and planners do all the time that make terminal values even higher. How many times do clients not take the annual inflation bump that was assumed in their chosen distribution plan? Even if this is only foregone now and then, the cumulative effect relative to anticipated withdrawals can quickly become significant.

And then there are the times of economic and market distress that cause clients and planners (although not always at the same moment) to decide that a reduction of the intended withdrawal amount is prudent. If this goes beyond what the plan would have otherwise prescribed, it only pads the eventual terminal value further still. Moreover, most clients rightly believe they are likely to slow their spending somewhat as they age, particularly if long-term care insurance is in place. So there is quite a wind of abundance at the back of a financial journey whose course is oriented toward ongoing distributions that ultimately bring it to a safe and sustained conclusion.

The Part Fear Plays

It's these behavioral forces that will make future financial legacies unexpectedly large. Fear—on the part of client and planner—is the wind that exacerbates this outcome. This fear is as natural as we are human; it will play its part. At times clients will act on the scarcity voice they hear from external messages and their own internal money scripts.

At our firm, we use a systematic withdrawal approach calling for small reductions when clients' plans hit certain withdrawal rate "guardrails." Nonetheless, during late 2008 and early 2009, we spent far more time in client conversations about why they needn't reduce their spending even further than we did persuading them that a reduction was necessary. As for advisers, studies previously published in the *Journal* show that some planners also succumb to this scarcity orientation by advocating withdrawal reductions that are not empirically justified because "this time, it's different."

In our client relationships, we are asked to show skill and nimbleness in situations teeming with the fear of scarcity as well as the possibility of abundance. Acknowledging the confluence of these analytical and behavioral forces, our scarcity side says, "Good! There's an even bigger margin of error and a greater likelihood that there actually will be enough money." True enough. However, our abundance side can reply, "With so much momentum pushing us toward 'more than enough', we must re-examine what the money is for. How shall we reconsider whose it is and rethink how to best manage it? Imagine the possibilities!"

The ongoing client relationships at the heart of the financial planning process are ideally suited for the conversations that can help clients see what is happening, if we are able to let them. Two caveats, though. First, there are undoubtedly retirement income scenarios that will ultimately succeed, although with relatively little margin of safety. However, clients who began distributions in overvalued markets such as 2000 or 2007 and who today, despite what happened out of the gate, sport what would be considered safe withdrawal rates, are not in such a scenario. And second, advisers must keep the shadings of their own money scripts as distant from their advice-giving as possible.

Remember that a dynamic, policy-based distribution strategy is informed by objective assessment of the situation at hand and does not first require a prediction of future conditions before advice can be rendered. It's in just such predictions that our money scripts, projections, anchoring, and other human foibles that behavioral scientists have identified come home to roost.

The Value of Conversations

These conversations are not merely left-brain demonstrations aimed at making a point. These can be useful, and they are the easy part. Even more helpful will be to follow the path that has first brought the client closer to realizing that they do and will, indeed, have enough money. It's hard to imagine someone seeing that they will have "more than enough money" who does not first realize that they are "going to be OK."

Experience will be as effective a teacher as we can use in direct conversation about this. Though memories of their experiences since 2000 can stoke fears of scarcity, their silver lining is that they also can be turned on their head. After all this, if a client's financial ship is not now sunk, then it will take financial storms worse than we've recently seen to do so. Even 15 years ago, we did not yet have the experience to know this.

For most clients, however, this is unlikely to be sufficient. Rather, it's the indirect conversations that in time will bear the fruit of understanding, if such seed is to germinate at all. In the opportune moments (and skilled communicators will recognize them as such), messages can be sent to clients that could take root without giving the left brain the key ingredients with which to first poison them. Imagine, at such moments, planting such seeds by saying, "You know, we have clients who retired just before the last two big bear markets and they're doing just fine," or "Nobody knows how to make just your very last check bounce, so neither you nor I are going to let any of them bounce," or "Do you realize how much money your portfolio is likely to still be worth once you're finished using it? Maybe we should talk about that at your next review," or "Our only clients who ever ran out of money chose to do so."

How will you know if these seeds have sprouted? Your client will tell you they have in no uncertain terms. In the meantime, just keep tending them, and be ready for a rich conversation when the moment arrives to discover their vision for their more-than-enough-money. ■