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Balancing Retirement Planning with Present Lifestyle

TO REACH THEIR RETIREMENT AND ESTATE GOALS, AFFLUENT INDIVIDUALS NEED TO MANAGE LIFESTYLE EXPENSES, INVESTMENTS AND ESTATE PLANNING CONSIDERATIONS. AMONG OTHER QUESTIONS, THEY SHOULD ASK THEMSELVES: WHAT WILL THEIR FUTURE COST?

The booming five-year economic expansion has been minting new millionaires in growing numbers. In North America alone, households crossing the seven-figure threshold increased by 9.2% to 3.2 million, during 2006 and their total wealth grew by 10% to \$11.3 trillion, according to the 2007 World Wealth Report.¹

As your household wealth increases, the time you devote to financial and estate planning should grow as well, to make sure your lifestyle and legacy are secure, according to a recent report published by the Wharton School at the University of Pennsylvania and the State Street Global Advisors group.²

“While \$5 to \$10 million in assets can provide a very comfortable lifestyle, it may not be enough to provide a large legacy,” explains Todd Millay, Executive Director of the Wharton Global Family Alliance. The bottom line: High-net-worth individuals need to balance their lifestyle with their long-term retirement goals.

How extravagantly do you choose to live today? Do you make decisions based on a strategic financial plan? Are you taking unnecessary financial risks? What will your future cost? These questions, among others, will determine whether you can maintain your lifestyle throughout retirement, and still leave an inheritance.

CONSIDERING YOUR RETIREMENT LIFESTYLE

Living at the threshold of what is affordable long-term, could jeopardize a retiree’s future. For example, unexpected expenses such as healthcare costs, inflation or market fluctuations or a pattern of extravagant purchases could substantially reduce their assets and threaten their retirement lifestyle and estate plan, explains Millay.

There’s a fine balance between preserving money to spend today and saving money for retirement. In fact, you may need more assets during retirement than you realize and should plan to use 100% of your current living expenses as a target income for retirement planning, according to the Wharton School report.³

SETTING INVESTMENT GOALS

With high-net-worth investors, the general goal may be to establish an asset strategy that balances their investments with their tolerance for risk. “Many people imagine a very active, productive and fulfilling retirement lifestyle at a time when their investment strategy must become more conservative,” says Millay. As the individual approaches retirement, a financial advisor may recommend converting assets to reduce risk, increase diversification, or provide a new income stream or asset for heirs.⁴

You may want to learn more about the opportunities of becoming a “qualified purchaser”—a

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person with \$5 million or more to invest. The designation opens a new field of investment choices with fewer SEC restrictions and the potential for higher returns and greater volatility and risk. “On the one hand, it may seem enticing to have an opportunity to invest large sums of money with the potential to make millions,” says Millay. But you must evaluate each asset in the context of performance, liquidity and the effect a potential loss would have on income, retirement or estate planning goals.

You may also be approached with ‘hot investment tips’ that need to be evaluated in relation to your goals. “Having an early discussion about the potential risks of investment tips in relation to your primary goals—whether wealth preservation or accumulation—level of tolerable risk and retirement strategies will set a good foundation for future discussions about the advisability of following ‘hot tips,’” suggests Millay.

ESTATE PLANNING CONSIDERATIONS

It is important to have an integrated retirement and estate plan because of the likelihood of estate taxes.⁵ This means that “unplanned estates are subject to a waste or unnecessary loss of assets,” says James M. Kosakow, estate planning attorney with McLaughlin & Stearn, LLP in New York.

Additionally, if you have a spouse who is not a citizen, a nontraditional relationship, blended family, children with special needs, no heirs and/or non-liquid assets, you may require additional legal protections and financial products to safeguard your wealth in a tax efficient manner, Kosakow explains.

By reviewing with their financial advisor what will be left as a legacy after funding their retirement, high-net-worth individuals can then discuss the options and benefits for passing wealth to their beneficiaries through estate planning. “A financial advisor is in a key

position to help affluent clients understand the importance of estate planning to protect their wealth today, provide for their family now and in the future, and minimize estate taxes for their heirs,” says Kosakow.

¹*More Millionaires Than Ever*, www.wsj.com/wealth, The Wall Street Journal online, posted June 27, 2007.

²*Special Report: High Net Worth/High Net Risk: Meeting Retirement Goals*. <http://knowledge.wharton.upenn.edu>.

³*Special Report: High Net Worth/High Net Risk: Meeting Retirement Goals*. <http://knowledge.wharton.upenn.edu>.

⁴*Special Report: High Net Worth/High Net Risk: Meeting Retirement Goals*. <http://knowledge.wharton.upenn.edu>.

⁵Jack Sharry, *Step in Time With the Over-45 Set*. www.onwallstreet.com/article.cfm?articleid=3503. January, 2007.

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