Financial Advisor Series

Foundations of Retirement Planning

Second Edition

Kirk S. Okumura

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270 S. Bryn Mawr Avenue
Bryn Mawr, PA 19010
(888) AMERCOL (263–7265)
theamericancollege.edu

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Preface

The mission of this book is to develop your professionalism as a financial advisor who counsels prospects and clients about the need for retirement planning. We intend to do this by teaching you important aspects of the retirement planning process as it is adapted from the eight-step selling/planning process. Each chapter covers one or more concepts relevant to successful retirement planning and/or the skills, techniques, or knowledge that facilitate their use. To gain an understanding of the retirement planning process, you need to read the entire book.

Although much of the text material will be new to you, some will, no doubt, refresh knowledge you acquired in the past. In either case, all of the text material is both valuable and necessary if you aspire to be a successful financial advisor. The benefits you gain from studying the text will be directly proportional to the effort you expend. Read each chapter carefully and answer the essay and multiple-choice review questions for the chapter (preferably before looking in the back of the book for the answers); to do less would be to deprive yourself of the unique opportunity to become familiar with the selling/planning process and all that it entails.

The book includes educational features designed to help you focus your study of the selling/planning process. Among the features found in each chapter are

- learning objectives
- a chapter outline, examples, figures, and lists
- key terms and concepts
- review questions (essay format)
- self-test questions (multiple-choice format)

Features located in the back of the book are a(n)

- glossary
- answers to questions section
- index

Finally, all of the individuals noted on the acknowledgments page made this a better book, and we are grateful. In spite of the help of all these fine folks, however, some errors have undoubtedly eluded our eyes. For these we are solely responsible. At the same time, we accept full credit for giving those of you who find these errors the exhilarating intellectual experience produced by such discovery. Nevertheless, the author acknowledges that any errors discovered are solely his fault.

Acknowledgments

This book was written by Richard A. Dulisse, CFP, former assistant professor of financial planning at The American College, and updated by Kirk S. Okumura of The American College faculty.

About the Financial Advisor Series

The mission of The American College is to raise the level of professionalism of its students and, by extension, the financial services industry as a whole. As an educational product of The College, the Financial Advisor Series shares in this mission. Because knowledge is the key to professionalism, a thorough and comprehensive reading of each book in the series will help the practitioner-advisor to better service his or her clients—a task made all the more difficult because the typical client is becoming more financially sophisticated every day and demands that his or her financial advisor be knowledgeable about the latest products and planning methodologies. By providing practitioner-advisors in the financial services industry with up-to-date, authoritative information about various marketing and sales techniques, product knowledge, and planning considerations, the books of the Financial Advisor Series will enable many practitioner-advisors to continue their studies so as to develop and maintain a high level of professional competence.

When all books in the Financial Advisor Series are completed, the series will encompass 16 titles spread across three separate subseries, each with a special focus. The first subseries, *Sales Skills Techniques*, will focus on enhancing the practitioner-advisor's marketing and sales skills but will also cover some product knowledge and planning considerations. The second subseries, *Product Essentials*, will focus on product knowledge but will also delve into marketing and sales skills, as well as planning considerations in many of its books. The third subseries, *Planning Foundations*, will focus on various planning considerations and processes that form the foundation for a successful career as a financial services professional. When appropriate, many of its books will also touch upon product knowledge and sales and marketing skills. Current and forthcoming titles are listed earlier in this book.

Overview of the Book

Foundations of Retirement Planning guides the financial advisor through the retirement planning process, explaining the use of fact finders, methods of analyzing facts, presentation of solutions, and calculation of clients' retirement income needs.

Chapter 1 examines 10 critical issues that affect retirement planning today, with an emphasis on the roadblocks to retirement saving. In addition, it discusses the roles and responsibilities of the financial advisor in the retirement planning process. The chapter introduces the eight-step selling/planning process (or sales cycle), including the adaptation of this process to retirement planning. Furthermore, it discusses the five stages of retirement planning from the client's perspective. Finally, the chapter examines prospecting, retirement planning demographics, and the various age-based market segments for retirement planning.

Chapter 2 identifies the main sources of retirement income, with a special focus on Social Security and the role Social Security benefits play in retirement planning. Next, the chapter considers time-value-of-money concepts and reviews future value and present value calculations. The chapter concludes with a discussion of personal financial statements, including the financial position and cash flow statements. It explores cash flow analysis, planning, and management, with an emphasis on household budgeting techniques.

Chapter 3 begins with a discussion of goal setting and examines the quantitative assumptions that are required in the retirement planning process, concentrating particularly on the two basic methods for calculating a prospect's retirement income need. The purpose and goals of the initial retirement planning interview are explored, along with three methods to qualify prospects for retirement planning. The chapter also includes a step-by-step explanation of how to use the retirement planning fact finder.

Chapter 4 examines the financial obstacles to successful retirement planning. It discusses the impact of special planning needs—especially college education funding—on retirement planning. It also discusses how Social Security, Medicare, Medicaid, and medical expense and long-term care insurance, as well as other insurance products and risk management techniques, affect planning. The chapter then assesses the impact of income taxation, inflation, and the procrastination of saving on retirement planning.

Chapter 5 focuses on investments and financial products. It considers the four basic approaches to investing, along with the concepts of suitability and risk tolerance, and it identifies the basic types of risk associated with investing. Risk management and investment management techniques, such as diversification, asset allocation, and dollar cost averaging, are examined, as well as financial products used in retirement planning such as mutual funds, annuities, life insurance, stocks, and bonds.

Chapter 6 discusses tax-advantaged retirement plans, examining the basic types of qualified and nonqualified plans in detail. It also addresses the effect of salary reduction on income taxes and the impact of tax deferral on the accumulation of money. There is an in-depth discussion of the traditional IRA, Roth IRA, IRA rollovers, and the rules for the taxation of distributions from IRAs.

Chapter 7 explores wealth management and distribution strategies for retirees. It looks at reasons for and against taking early retirement, along with its effect on Social Security benefits and company-sponsored retirement plans. The chapter explores the roles of Social Security retirement benefits, life insurance, and qualified plan and IRA required minimum distribution rules in retirees' asset distribution planning. Pre- and postretirement investment strategies are covered, as well as the development of effective retirement planning solutions.

Chapter 8, which is devoted to wealth transfer planning and professionalism, opens with a discussion of life insurance beneficiary designations and the five ways that property transfers from owners to survivors at death. The chapter explores the use of basic estate planning techniques and the impact of income in respect of a decedent, and it reviews state regulation of insurance products and federal regulation of securities products. The book concludes with an evaluation of the critical role of ethics and professionalism in the financial advisor's selling/planning activities.