

# Practice vs Reality

## Financial Planning

A Financial Plan is a valuable resource that helps identify problems, clarify goals, and establish a plan for the future. Financial plans can also be misleading because they rely on past data that may not be relevant to the future, and average performance data that may prove correct can still lead to a spending plan that ultimately fails.

### CONSIDER THE FOLLOWING CASE STUDY:

- Three investors begin an identical savings and spending plan at different times
- Each begin at age 54 with a \$900,000 portfolio
- Each is saving \$16,000/yr until retirement
- Each wish to retire at age 61 (seven years from inception)
- Each has a life expectancy of age 90
- Each has a retirement income goal of \$112,500/yr
- A 12% return is used in each projection

#### A financial plan is done for Jerry in 1960

Over the next 40 years the market provides returns of 12.23%, higher than projected...

#### Result:

- Jerry is out of money at age 85

#### A financial plan is done for Kramer in 1961

Over the next 40 years the market provides returns of 12.09%, higher than projected but less than Jerry...

#### Result:

- Kramer has \$1.5 million at age 90

#### A financial plan is done for Elaine in 1935

Over the next 40 years the market provides the lowest return of only 9.79%, much less than projected...

#### Result:

- Elaine has \$5.7 million at age 90

## Timing is everything.

Even the best-intentioned plans using modest returns can fail because they ignore the inherent volatility of real-life markets.



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