

Episode #189: How to Build a Multi-Layered Defensible Plan for Retirement

Video Transcription

Hi. My name is Tim Devlin, and I want to welcome you to this week's episode of "Money Script Monday." Today, I want to talk to you about how our advisors are using a multi-layered defensible plan for retirement to help their clients achieve their goals.

One of the things we often see is, with financial planning, we focus so much on retirement. When we do that, we often forget all the major life events that come before and after that. If we think about purchasing a home, purchasing a car, planning for your children's college education, actually generating income in retirement, and then planning for that next generation. All of those events come before and after that actual retirement date. We need to set up a plan that can encompass all of that. The question becomes, how can we set you up for success where we can achieve the goals that you have in the coming 6 to 12 months, in the next one to four years, and then those long-term goals you have four years and beyond?

Our advisors are using what's called a time-based asset allocation. In other words, they're sitting down with you and figuring out, what are the goals you're trying to achieve? When are those goals set to happen? What are the spending requirements that you have for that goal? Once we can establish those three things, we can say, what is the level of risk we need to take to help you reach that goal?

At the center of every great plan is the long-term growth of your investments. We are firm believers that the stock market is one of the greatest tools for accumulating wealth over the long term. As we know, the stock market is volatile. It can be up or down in any given year. What we have to do is set up a perimeter of defense for short-term money. This will allow you to tap into and keep that long-term growth in place. This is going to be crucial because it's going to allow you to keep your long-term growth silo intact when markets are down. It's going to allow that money to recover if needed. On the flip side, if the markets are going up, it's going to allow that money to compound and grow your estate over time.

When we look at this, what are advisors setting up for clients? The first thing we do is set up what's called a rainy day fund.

This is going to encompass all of your spending needs in the next, call it, 6 to 12 months. We're going to include an emergency fund, and then if you have any planned goals like purchasing a car, we're going to include that here. The main goal of this silo is to protect you from market volatility. We want to make sure that this money is there when you need it.

Second, we want to establish a silo for that short-term money, one to four years. This is going to be used for generating some return, but we're going to manage the risk for large losses. That's going to be the main goal of the short-term money. It'll give you liquidity in the short term, but we can still earn some rate of return.

Next and this is one of the most crucial silos. We want to create sources of protected income, in other words, income that is not affected by the stock market moving up or down. We're going to use life insurance and annuity solutions that will provide a floor and protect you from that downside market volatility while still allowing you to take part in the upside.

Lastly, this is where your long-term growth comes into play. After we've set up those three rings of defense, we want to focus on that long-term growth. We want to take a long-term investment approach and allow this money to compound over time. This is what's going to grow your estate. Once we've set that in place, the real purpose of this is to unlock the potential for your long-term money, unlock that long-term growth potential.

That's the main goal, but what we also see is we accomplish a few other things. The first being, we're going to reduce a lot of stress, because we have that rainy day fund, money when you need it, short-term money that's allocated for the goals that you're going to spend in the short-term, and then those protected income solutions. You have some security of income and retirement. That's going to help you sleep at night.

The next thing is easy to access to cash. We've already talked about it. We're setting aside money for those goals. You earn the money, you save money, you have the right to spend it. It's not all about accumulating wealth and we want to plan for that.

Next, those protected income solutions. That's going to help you protect current and future lifestyle needs. This is going to be income that takes you from your day job into retirement. Once we've done all of that, what's cool and important about this, is we're going to create an opportunistic client, an opportunistic advisor, and an opportunistic portfolio manager. What this is going to allow us to do is take advantage of what's going on in the market.

If there's short-term noise, because we have those defensible solutions already in place, we can take a long-term approach. We don't have to worry about the next few months. We can worry about the next few years and help you grow your wealth over time.

If any of these solutions sound of interest to you, I implore you, reach out to your local financial professional and see if this type of asset allocation makes sense for you. My name is Tim Devlin, and I want to thank you for watching this episode of "Money Script Monday."