HELM
INVESTMENT MANAGEMENT

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PERSONAL RETIREMENT FORECASTING

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"Run that projection for me assuming I retire at 65 and live to be 90." We frequently get that request. Financial projections are a nice way to answer the query. They are based on individual portfolios, "what do I have now," and the sources of income individuals can guesstimate. Our Helm response is to prepare a personal retirement forecast which will result in a report cover letter and scenarios based on the assumptions listed.

Projections start with a personal statement of assets and liabilities. Future changes are based on an individual's assumptions. Reasonable assumptions, for example, may be that the 50% of your portfolio assets in fixed income return an average of 5% and the 50% of your portfolio equities (including capital gains and dividends) annually return 9%. Other assumptions may include variables such as 2% average annual inflation, social security income of $30,000 with an annual cost-of-living bump, your selling someday or not selling your house, an annual income tax bracket of 25% and that you spend all annual income and all your liquid assets to zero by age 90. (We call that a "doomsday" forecast.) All the above assumptions, and more can be added, are called personal "variables." There is no reason the above assumptions have to be your assumptions. The point is each individual scripts his or her own variables for personal retirement forecasting.

The process begins with a personal balance sheet. Using the income-producing assets from the balance sheet as a starting point, we use an Excel spreadsheet to calculate current and future income year-by-year. When the figures or assumptions are changed, those changes appear throughout the spreadsheet for all of the future years forecasted.

It's not magic, it's just math. Businesses commonly use this kind of spreadsheet analysis for budgeting and cash flow forecasts. Individuals rarely do, but they should. It greatly helps personal financial planning to look at "what if" scenarios.

Our Helm philosophy is that five years is long term financial planning. So why bother with a forecast that goes out twenty or thirty years? Easy. Businesses update their projections every 12 or 18 months and change the assumptions. That, of course, changes the array of possible outcomes and makes the planning currently relevant. Individuals can do the same thing and see a new projection based on revised inputs. People do change how they spend and save and think about future spending when they are looking at numbers that are specific. That is, numbers which are real to themselves, not some canned program or general financial advice.

These personal retirement forecasts also help individuals with their estate planning because they are based on balance sheets that obviously show the end of the road. That reminds people to look at their wills and see if an old specific bequest is still valid or how their estate ought to be divided up based on current rather than historical numbers.

If you are not already doing these kinds of retirement planning forecasts or updates, give us a call. Helm's business of asset management is really part of a larger world of overall financial planning. We have a lot of years of experience in both asset management and personal financial planning and look forward to working with you in this area as well. Projecting "what if" scenarios can be very helpful for both current and future personal financial and investment planning.

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