Pre-Retirement and Retirement Income Planning
plus
401(k) and Portfolio Diagnostic Analysis

An Employer Sponsored 3-Session Workshop

Presented by Cygnet Institute of Personal Financial Literacy A NON-PROFIT *FINANCIAL NAVIGATOR*
Teaching people how to make good financial decisions to achieve their goals since 1989.
Offered with the Michigan Council on Economic Education.

The goal of this workshop is to teach 401(k) participants and their spouse/partner how to manage their 401(k) account and other savings by using “lite” versions of the same actuarial and institutional portfolio management tools used by professional pension plan managers.

Each employee is coached in the completion of their plan in 3 sessions, 2½ hours each using the following 4 tools:

1. As participants register for the class they are given a set of folders to use in collecting all the relevant information they will need for their plan. (Tool #1: Financial Organizer)

2. Just like a traditional defined benefit pension, contributions to retirement savings accounts, the eventual distributions from these accounts, and the accounting of other sources of income during retirement must be quantified today, projected into the future, and amortized to determine a sustainable retirement income stream. This income stream is then compared to the employee’s “spending diary” to determine if their plan is in balance *or* if adjustments need to be made. (Tool #2: Financial Lifestyle Analysis)

3. A missing component in proper retirement planning is the absence of credible goals regarding the income that will be needed at retirement. Percentage rules of thumb are deeply flawed with severe consequences for most people. In this workshop we include a Spending Diary that is used to gather information on all the spending that a household experiences presently in a 12-month period. Accurate information regarding the present lifestyle expenses makes it much easier to develop - on an item by item basis - the spending needs at retirement. Allowing participants to focus on whether expenses at retirement for each item will either go up or go down, not only improves accuracy in the projection of income needed but also raises the confidence with which this information is used in the retirement planning process. (Tool #3: Spending Diary)

4. Once a valid pre-retirement capital accumulation goal is established and a sustainable amortization schedule (a.k.a. “retirement income stream”) is settled upon, the underlying retirement portfolio must be analyzed to determine if it is properly allocated to achieve the necessary rate of return and if it is “efficient”. If the portfolio is not allocated properly then investment decisions must be made to improve return, reduce investment volatility, or both. (Tool #4: Asset Allocation Strategy)

5. The last step, development of an Investment Policy Statement, is critical to protecting the employee’s retirement from the natural human emotions (e.g. fear and greed) of which the science of Behavioral Economics has made us keenly aware. This document memorializes the goals and objectives settled upon in the previous steps, and outlines the specifics of how all this will be implemented, managed, and modified throughout the years. (Tool #5: Investment Policy Statement).

During this 3 session workshop, each participant will have the opportunity to develop these "tools" in the context of their personal/household circumstances. Although this done in a group setting, complete confidentiality is strictly maintained.

Tool# 2: Financial Lifestyle Analysis™ (FLA)

Project Present and Future Cash Flows...
So You Can Make Good Financial Decisions To Achieve Your Goals

Introduction

Most people worry about their financial future because they are never quite sure if they are saving enough to have a good retirement while still being able to achieve their other long-term and short-term goals. Until now, it has seemed that only the very wealthy would benefit from professional financial planning. The Financial Lifestyle Analysis™ has changed all that.

This Financial Lifestyle Analysis™ is a copyrighted process - the result of years of field testing and refinement. It is a user friendly cash-flow-based retirement planning process that will help YOU bring together all the elements of your current financial decisions, project them into the future and assess whether your current actions will allow you to achieve your goals. This way you will be able to determine if you are saving enough to enable you to have the successful retirement you want - when you want it.

We are confident that the Financial Lifestyle Analysis™ will help you draw the right conclusions and empower you to exercise the control YOU DO HAVE over your financial future. Control that will help you make decisions about what actions you need to take to achieve your goals.

Objectives

The Financial Lifestyle Analysis™ allows you to "preview" your financial life like a video on fast forward. This way you can see and understand the future impact of the decisions you are making today and determine:

- What your retirement lifestyle will be like.
- If you are saving enough or too much.
- How much money you can take out of savings each year to supplement your retirement income.
- What rate of return your overall portfolio is earning.
- If your money is earning enough.
- If you can retire earlier than you planned.

Features

The Financial Lifestyle Analysis™ is the first step to building a well-rounded retirement plan. It is a valuable planning tool that is made even more powerful when taking into account the features that are built-in to help you take control of your financial future.

- **User friendly and easy-to-understand** format.
- Comparison worksheets that **reveal inconsistencies** between spending for today and saving for the future.
- Objective analysis helps both you and your spouse **coordinate your financial decisions**.
- Confidentiality **guaranteed**.

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How It Works

The Financial Lifestyle Analysis™ focuses on helping you coordinate your financial resources. This will involve the assembly of information from various areas of both you, and your spouse's, financial picture such as:

- Social Security Benefits
- Pension benefits
- Income from wages
- Any part-time work after retirement
- 401(k) savings
- IRA's
- Other savings
- Monthly savings plan
- Sale of assets (i.e. your home or other large assets)

We input this information into our software and produce a personalized Financial Lifestyle Analysis™ report. With this report you will be able to see your financial future today - in clear cut, easy to understand numbers. And, if you don't like what you see, we can help you "test" alternative scenarios before you make any financial decisions.

Tool #3: Spending Diary

Document Your Lifestyle and Your True Cash Flow Needs Today...
So You Can Make a Correct Assessment About What You'll Need Tomorrow.

Introduction

All too often, people rely upon rules of thumb to make decisions about their financial future. This generic approach is highly inaccurate and can easily result in people making an incorrect in irreversible decision for their individual personal circumstance.

For this reason, we avoid basing any financial projections on rules of thumb and instead force participants through the drudgery of documenting where their cash flow is really going. Once this is determined with a reasonable degree of accuracy, then future projections can be made that are valid.

The spending diary is completed in class during the second session. Most people do not have the appetite to go through this on their own at home. We discovered from our workshops at General Motors in the early 1990's that the group setting for this assignment is the only way to get participants to complete. The participants, who do have a strong handle on their spending, simply finish the assignment quicker.

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Tool #4: Asset Allocation Analysis

Diagnose and Improve Portfolio Efficiency...
So You Can Properly Manage Market Volatility and Financial Risk

Introduction

Increasingly the responsibility of preparing for a comfortable retirement is being shifted to the individual. This means that more so than ever before, it is very important that you make sure the money you are saving is working hard enough for you to achieve your retirement and other goals.

A significant financial concept emerged in the early 1970's called the Modern Portfolio Theory. This theory is the foundation for the leading investment strategy and management process, called Asset Allocation, and used by professional money managers and pension fund investors. The power of Asset Allocation is evident from recent survey of senior pension fund officials that showed that 85% agreed that asset allocation decisions determine at least 90% of a fund's total return. Not timing or selection.

Asset Allocation works by spreading investment risk across different investment categories. Doing this is an effective way of building an "efficient" investment portfolio that achieves a targeted rate of return with minimized volatility.

Until now Asset Allocation was very expensive. However, advances in computer technology have reduced overall costs to the point where this very powerful investment tool is now within the reach of everyone. With the very same technology used by pension funds and institutional investors, you can now have your own asset allocation strategy that reflects a balance between risk and reward that is unique to your situation and goals.

Investment Policy

At the heart of the Asset Allocation process is the creation of an investment policy. This policy helps you avoid taking impulsive action based on the popular "wisdom" offered by the financial "experts" in newspapers, magazines, radio or television.

Instead it provides you with a professional decision-making process similar to those used by pension funds and money managers. An Investment Policy is a valuable tool for reacting to changes in inflation and market conditions in a way that is consistent with the long-term rate of return needed to achieve your goals and make your financial plan work.

Asset Classes

Up to 20 asset classes can be used to create your Asset Allocation Account. These classes fall into the broad categories shown below in bold lettering.

Cash	Savings, Checking, Money Markets
Fixed Income	CD's, T-Notes, Short Term Bonds, Fixed Annuities, Intermediate Government, Long Term Government, Municipal, Corporate, Mortgage Backed, High Yield
Equities	Large Value, Large Growth, Small Value, Small Growth, Midcap, Balanced Funds

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Alternatives	Real Estate, Futures/Commodities, Venture Capital
International	Stocks, Bonds, Emerging Equities

The Asset Allocation process can take advantage of all these asset classes to develop a unified strategy that coordinates your investment decision in ALL investment accounts such as IRA's, 401(k)'s, TSA's, Mutual Fund or Stock Brokerage accounts.

Steps in Developing a Portfolio

- Decide the rate of return that is necessary to achieve the objectives of your financial plan.

- Determine your risk profile from your attitudes to issues like Inflation, Growth, Tax Deferral, Income, Liquidity, Volatility, Time Horizon

- Select which asset classes you want to work with and place limits on the maximum or minimum percentage of your investment portfolio that you would consider placing in each class.

- Forecast the "efficient" portfolio that finds the optimal balance between risk and rate of return and detail out the percentage of your money that should be put in each asset class.

- Develop an implementation strategy to move money from your current investment mix to achieve the percentages in the proposed "efficient" portfolio on which your Investment Policy Statement is based.

- Monitor your portfolio to make sure it follows your Investment Policy Statement and rebalance when necessary to get back on course.

- Periodically review your Financial Lifestyle Analysis, your Investment Policy Statement and your Asset Allocation to adjust for changes in market conditions and personal objectives.

Rebalancing the Portfolio

From time to time your portfolio will need to be rebalanced. This will be necessary because some assets may have increased in value while others may be lagging. When the current percentages differ significantly from the original percentages, it is time to shift money around to get back to the original mix of the "efficient" portfolio described in your Investment Policy Statement.

This rebalancing process guides you in making portfolio decisions that are based on the time tested concepts of Modern Portfolio Theory. The theory tells us that if we have designed a portfolio to achieve maximum return with minimized volatility, then any time some asset classes are down, others are probably up. What you do then is shift some money from the assets that are up into assets that are down. We do this because we can reasonably expect that those classes that are down will eventually increase in value as they go through the upswing of their cycle, while the ones that were up may decline.

Doing this will allow you to take advantage of the natural cycle of the market by buying low and selling high -- automatically and without risky guesswork.

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Tool #5: Investment Policy Statement

Formalize and Document Your Investment Implementation Plan...
So You Can Have a Foundation for Making Prudent Decisions and Control the Emotions of Fear and Greed

- Identify all current assets
- Establish responsible parties
- Identify purpose of portfolio
- Agree on general expectations
- Identify investment objectives
- Research ideal asset allocation
- Investment selection criteria
- Performance monitoring
- Rebalancing portfolio
- Portfolio review cycle

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