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Staying Ahead
with Saul Ewing

4 | 06 Personal Wealth, Estates and Trusts

Will You Have an Estate to Plan for?

How long will you live and can you afford to retire or give your money away now? Have your legal and financial advisors talked with you about these issues?

During many estate planning meetings, the focus is only on how to divide assets at death and avoid estate tax. Many advisors forget to discuss the more important issues concerning your own future, particularly in the context of increasing life expectancy and rising healthcare costs.

While possibly disappointing to your heirs who may anticipate a down payment on their inheritance or to charities who are raising funds, good planning might now require that you think about retaining a larger pool of capital for your own needs.

Many of us once focused on planning for a retirement of 10 or perhaps 15 years. Yet, today a healthy 65 year-old man has an average lifespan of 20 more years, and a better than 25% chance of living into his '90s. Women have even longer life expectancies and a 65 year old couple has a better than 25% chance that at least one of them will survive into their late '90s. This increased longevity is forcing many of us to reexamine long held assumptions, particularly with regard to the pool of capital required to maintain our current standard of living, and whether we can afford to give it to our children while we are alive.

For example, many years ago the conventional wisdom was that we could begin retirement at age 65 and could comfortably spend 6% of our savings per year. Today, at that rate of withdrawal, we might be advised that there is a significant chance that we will run out of money in 20 years, when at least one spouse probably will still be alive. Many professionals now advise lowering the withdrawal rate to 4% in order to add more years of financial security, which is consistent with prudent planning to live until the age of 100.

We should also test the assumption that our cost of living will decline when we retire. Unfortunately, unless we plan to sell our home and reengineer our lifestyle downward, this may be an unrealistic assumption. Leisure time (particularly travel) often is expensive and many find that spending can actually increase in the early years of retirement. In our later years, when spending on many activities naturally will decline, the costs of medical and long-term healthcare (which are rising at a much higher rate than general inflation) may be an expensive offset. A long term illness requiring home or institutional health care could raise spending needs by more than $100,000 annually.

Many believe that pursuing high income is the cornerstone of a sound strategy. Yet, high income is not the same as high net worth. Often we spend at the same pace or even higher than growth in income, and forget to accumulate the capital necessary to replace the income after retirement.

Others believe that contributions to retirement plans will provide sufficient income in later years. However, for those earning high incomes and developing the spending patterns to match, the contribution limits for these accounts may not provide sufficient savings for retirement. The common wisdom is that by not saving at least 10% of your income from an early age, a worry-free retirement may be difficult. For those who don't think about saving for retirement until they are 50 years old, a much higher savings rate will likely be necessary.

Deciding when to retire also is important. If you can postpone retirement, you will benefit as additional savings' contributions combine and compound. This postponement often may be preferable to having to retire at a lower standard of living.

Thinking about when to retire, where to live and whether to work after retirement are all important. A good financial advisor should be able to project your ongoing cash flow needs and help you budget now so that you position yourself for retirement. Make sure that the assumptions you use are conservative: i.e. assume you will live longer, incur unexpected expenses (particularly for medical and long-term healthcare) and that there will be periods when your investments will decline.

When you sit down to discuss your estate planning, don't forget to talk about your own needs, both present and long term. You and your advisor should make an honest assessment of whether your plans to transfer wealth to children and grandchildren need to be reexamined. Some children have expectations of receiving capital to fund their own retirements and their children's education. Parents often respond to those expectations with a belief that their children's needs should come first and want to share too early the money that is needed for their own support and maintenance. Sometimes one or two children assume responsibility for aging parents, excluding other children, whose resentment increases, particularly if their long awaited inheritance is delayed. By addressing these kinds of issues early in your planning, you can avert a family crisis.

The unforeseen death of your spouse can force you into a shocking realization that you may soon be unable to live alone and manage your personal day to day care, and financial affairs. The worry sets in on how to pay for institutional or home healthcare. While institutional settings are improving and becoming more state-of-the-art to serve the affluent, they are also becoming more expensive. In these circumstances, it might be prudent for the children to consider buying a long term healthcare policy for their parents, thus insuring their inheritance.

You should retire and share your wealth with your children when you can, not when you want to. However, these dates could be the same with good advice and careful planning.

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