Are You Ready?

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A COMMENTARY BY DANIEL M. ISARD

I find it fascinating that this study covers such serious topics, but I have to wonder whether respondents are taking them as seriously as they should.

Its keystone statement, in my opinion, is "[to determine] how well members are prepared for retirement."

But a response rate of 7.6%? That is just ridiculous! Everyone plans to retire. Of all the people we bury or cremate, 80% die after age 65. Therefore, we should all be aware of it, we should all be concerned with it, and we should all be investing our money and time to play the odds that we will indeed be "among the numbers" of this great majority who die after retirement.

Actually, the results of the 2019 NFDA Member Personal Financial and Succession Planning Study are right in line with an upcoming column I'll be writing on the subject.

Planning to retire is one thing, but planning to retire and be financially independent is quite another. Thirty-eight percent of respondents say they plan to retire within seven years. Do they know what it takes to be financially independent? Regardless of whether this 38% group comprises owners, managers or employees is not important – the computation is the same for all.

According to the study, directors' top concern is healthcare, coming in at 75.4% of respondents. That's huge, but it also tells me two things:

1. They haven't read the papers in the last six years since the Affordable Healthcare Act was passed. There is now a market in almost all states to secure healthcare, and the premium does not exclude existing maladies.

2. If this 75% is most concerned about healthcare, they have not done an analysis on how much it takes to retire.

Sixty-six percent of all preneed consumers purchase a preneed as part of their final spend-down before becoming wards of their state. These people did not do an analysis on what it takes to be financially independent and therefore ran out of money before running out of life. This 75% group is setting themselves up for the same thing!

The group with the third (maintain standard of living), fourth (running out of money) and fifth concerns (unable to meet expenses) are the ones who are focused properly on the issues of being independent after retirement. However, if they had merely met with a professional planner, they could be assured of knowing whether they did or did not have enough before they retired.

Managing investments is a huge issue. Each person can get to a community college and take a class on investments if they want to do it themselves. Or they can take the time to meet with professionals. Very few people are qualified to invest $1 million or more, even if it is their money. Yet, without qualified help, they will make errors that could ruin their lives.

The 79.8% who say they believe there is value is working with a professional advisor are not within the group that commented above, and the fears they mention would be calmed if they, too, worked with a professional. I am shocked that 52.1% say they feel confident that their retirement savings and/or investments will sufficiently provide for them throughout retirement. That is way too high a percentage. In society today, that number is only about 10% overall.

As to the percentage of annual income needed for retirement, the clear answer is 80% to 99%. Business owners will have to pay for their autos, health insurance, all meals, some travel and other things, which, pre-retirement, are handled by their businesses. Those who think they'll be able to retire on 60% to 79% must anticipate going into a monastery as part of their retirement plan.

Moving into succession issues, my professional experience has shown me that less than 5% of all business owners have a valuation of their business, performed by a qualified appraiser, that is less than five years old. Regardless of my 5% estimation or the study's 26.4%, it's amazing to think that 73.6% say they have no plan in place.

How can you have 80% of your net worth – and an asset providing 80% of your income – tied up in one asset and not know how it'll be liquidated upon your death, disability or retirement?

Regarding the study's question about having an exit plan strategy in place: Back in 1984, when I came into this business, the numbers showed that 80% would transfer ownership to children, 15% would transfer ownership to key employees and 5% to someone else. The reality was that in the late 1980s and 90s, the numbers very quickly went to 50% children and 50% someone else, as the kids didn't have the money needed to purchase. ≡

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