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More than half of clients underestimate their retirement expenses

By Courtney L. Vien

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Underestimating certain key factors in financial planning can leave retirees in difficult circumstances at a time that is supposed to be their golden years.

According to an AICPA survey, many people planning for retirement make the mistake of underestimating these factors. CPA financial planners responding to the AICPA CPA Personal Financial Planning Trends Survey for the third quarter of 2015 said that, on average, more than half of their retirement planning clients underestimated:

- Their retirement expenses (57%),
- Their and their spouse's combined life expectancies (57%),
- Their individual life expectancies (52%), and
- The amount of money they need to be able to retire (54%).

Survey respondents most frequently named overspending as a key reason clients were forced to change their retirement plans (76% named it as one of the top five reasons), followed by health care costs (72%) and poor estimates of retirement spending and income (68%).

Clients were more likely to reduce spending before taking steps to increase their retirement income, planners said. The strategies the highest percentage of clients would use to reduce spending included reducing gifting (planners said 56% of clients would consider this option), reducing discretionary spending (54%), and reducing travel (52%).

The greatest percentage of clients would be willing to sell physical assets for cash as a way of increasing retirement income or cash flow, planners said. Thirty-five percent of clients would consider this strategy, while 37% would consider changing the allocation of their investments for additional income, even if doing so would increase the risk of running out of money earlier.

Planners also stated that almost three in 10 clients (29%) would refuse to change their spending habits unless they were forced to. About the same proportion (30%) would refuse to adjust their cash flow or income unless circumstances required it.

Forty percent of respondents chose a change in health status as the circumstance most likely to make clients receptive to changing their retirement plan. Thirty-two percent of respondents chose losing a job or income as the event most likely to persuade clients to alter their plans, while 14% chose having a conversation with an adviser.

The survey polled CPA financial planners in September and received 398 responses. The survey asked advisers about their clients' reactions to recent turbulence in the stock market. Just 16% of clients asked about withdrawing their funds from the market, planners said. Clients who had established relationships with CPA financial planners showed the most confidence during recent stock market volatility (scoring a 3.6 on a 1-to-5 scale, with a 1 indicating the least confidence and a 5 indicating the greatest confidence), followed by clients under 40 (3.5) and those who were educated about the market (3.4).

Newly retired clients were most anxious about the recent stock market fluctuations (2.3). Clients approaching retirement (2.4), clients who had little interest in or were least educated about investing (2.4), and newer clients (2.5) were also more apprehensive. The data suggest that working with a CPA financial planner can ease clients' fears about investing.

To increase clients' confidence about investing, CPA financial planners who hold the PFS credential recommend that advisers:

- Help clients create disciplined investing plans,
- Educate clients about the factors that cause volatility, and
- Remind clients that stock market returns should be evaluated in terms of three-to-five-year cycles, not quarterly returns.

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