

Streams, Ponds and Lakes

By Scott Wheeler

As more and more clients move from accumulating assets for retirement to actually spending those assets, financial professionals are forced to look at ways to convey easily understood explanations of how income will flow during retirement. Oftentimes, different accounts will come on line down the road and be called upon to provide income at a given point in time.

How do you convey this to your clients?

Someone once told me it doesn't take a genius to take something complicated and keep it that way - the real genius is taking something complicated and making it simple and memorable.

Usually, the more someone is educated and understands a concept or topic, the more they want to show how much they know. In the prospecting world, this can spell trouble. Don't misunderstand, any plan needs to be thoughtful and thorough, but the presentation need not be.

In many cases, successful advisors accomplish simplicity by sticking to concepts drawn out on a piece of paper or even a napkin. In most cases, the more informal, the better. Taking this presentation style to the income side of the ledger and coupling it with a little creativity could be just what you need.

I have such a presentation - we call it "Streams, Ponds and Lakes."

By using simple diagrams and analogies, retirees are able to develop a personal, and therefore more meaningful picture as to how their retirement resources will work together, which is a great first step in the overall process.

Creating a financially stable retirement has much to do with creating an adequate and predictable "flow" of income. The more predictable and stable the flow, the more confident and related your client will be concerning their upcoming retirement years. The three parts work together as follows:

Streams

Streams are moving bodies of water. They are coming from somewhere and moving toward their rightful destination. Streams represent that portion of available retirement resources that are moving toward the retiree in a constant flow. These funds are used to fund ongoing living expenses. Streams look and feel much like the regular paycheck your clients grew accustomed to during their working years.

The most common retirement stream is Social Security income. It flows to the retiree for as long as it's needed. The stream is kept at a constant level (or flow) over time through annual cost of living adjustments made by the Social Security Administration. Although not as prevalent as in the past, pensions are also viable income streams.

An of course, additional income streams will most likely be created from other assets (ponds and lakes) in the future. Finally, each stream is based on the water level of the source from which it flows (converted pond or lake).

Ponds

Ponds are relatively shallow bodies of water, easy to manage and navigate. They are normally somewhat subdued, with very few waves. In other words, they normally exhibit very little unpredictability in the way of return, due to the chance they will be relied upon in the not too distant future. Ponds represent those retirement resources that are readily convertible into streams with little effort or hassle.

Ponds can be good sources of cash for major unforeseen (or planned) expenses such as the new vehicle, roof, etc. Over the medium term - usually three, five or even 10 years - ponds can be converted into retirement streams. Ponds are extremely necessary, as they allow retirees to manage resources for current needs, while leaving other assets to grow into larger and larger lakes (longer holding periods result in more predictable returns).

Lakes

Lakes are large bodies of water that feed ponds and streams over time. The idea behind retirement lakes is to do what we can allow the water level to rise as much as possible (growth) while minimizing the threat of evaporation (losses).

Over the long term, by creating and then utilizing streams and ponds first, lakes (largest body of the retirement resources) have time (usually 10 years or longer) to grow in size and depth. The longer a lake is left alone and conserved, the better the chance of that lake growing in size and depth. The deeper and broader a retiree's retirement lake, the more financially comfortable they will be, which in the end is the most important goal of retirement and income planning.