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GOOD FINANCIAL GROUNDWORK

Takes Flexible Goals-Based

PLANNING

I've been advising clients for 15 years and I've been in thousands of financial planning meetings. Typically, good financial planning is goals-based. Clients come to an advisor with an idea of their ideal future and the advisor lays out the most efficient and effective plan to achieve that future. But what happens if a client doesn't know what future they want? What good is a plan based on goals that may not be authentic to the client? These are great questions and I think the reality is that all goals are simply guesses of what we think will likely make us happy in the future. Goals can change over time and are more fluid than most people understand. At the same time, the best financial planning occurs by planning way ahead, giving the client the benefit of compound interest. The irony is that we must plan ahead for a future reality, but with flexibility because our goals may change.

So, what is a client to do? We think the best course of action is to use some basic categories to set the kind of goals that you'd be happy with in any scenario. These create a baseline financial plan that you can build on. This baseline will create the foundation and allow for tweaking as the future evolves. Below are four categories (and some examples in each category) that you may find helpful in setting goals for your exciting and evolving future:

1. Traditional Goals

- Retire at 65 – Our firm has all kinds of clients, some that want to retire early, some that want to work forever, and everyone in between. We believe age 65 is a good baseline for your planning. Even our clients that want to work forever want the ability to have financial independence by their mid-60s. They love their work, but they want to do it on their terms and want it to be a choice, not a financial necessity. If you set 65 as your baseline and later decide that you'd like to retire earlier, it just means you will need to adjust the amount you save annually but doesn't require you to start at square one because you already had a baseline. On the flip side, someone that has enough money to retire at 65 but keeps working, never complains about financial independence or having too much money.

- Help my children with college – This is an important one to discuss early. Some families want to pay for their children's college entirely, some families want to partially pay and give their children "skin in the game," and some families aren't in a position to pay or feel it is best that their children pay as part of the maturation process. There is no right or wrong answer, but most families know philosophically which camp they fall into and they should use that knowledge to start planning. For those that think they want to help, we typically think the best starting goal is to pick the percentage of school they'd like to cover. Our average client falls between 50% and 100%. We believe it best to tie it to the average cost of state school in your area. Ohio, for instance, averages between \$25,000 and \$30,000 per year, which means clients would need to save \$500-\$700/month into a 529 Plan from the day their child was born until the day they graduate. I'm illustrating a range because inflation and market assumptions can change the precise number. Some clients may prefer to pick a percentage they'd like to cover, others may look at these numbers and just choose to save as much as their budget allows. Either choice is better than not making a choice.

2. Milestone Goals

- Pay off the mortgage – Some of our clients throw a party when the

mortgage is paid off. It is a great milestone. If you have a goal of being debt free in the future, a good advisor can help you think how this goal fits into your plan.

3. Lifestyle Goals

- Spend the winter in the South – Ohio winters are typically colder and longer than we remember from the year before. Many of our clients love Ohio but have a goal of avoiding the winters. This can lead them to find places in the south that they can rent for 90 days or potentially buy. This goal may change, but this is a fun one, because most of our clients love the thought of skipping the cold months of January through March.

- Start a second career in retirement – Sometimes retirement doesn't mean no more work but retiring from the grind of a first career to free up energy for a new career. It could be consulting, volunteering or something entirely different, but either way we are never too old to try new things. If a second career energizes you, you should include it in your plan.

4. Philanthropic Goals

- Give to my church or a charity that I care about – I am often hard pressed to find someone highly charitable who is unhappy. Giving to things that are bigger than us has an odd way of keeping things in perspective. If you are energized by the greater good and giving back, we believe philanthropy should be included in your plan. It may make sense to start with a percentage of your income that you'd like to donate annually.

We hope this brief article helps you reflect on the ideal future you desire, and also gives you permission to change your mind as you learn and grow. If you want more tips on living well, please contact us at livewellcapital@nm.com or follow us on Facebook. ❖



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