The Planning Issues We Faced in the Pandemic

September 21, 2020

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We say it all the time to clients: You never know what could happen, so let us plan for the unexpected. But it is quite different when the unexpected happens to us as advisors. This pandemic is unlike anything we have ever considered or anticipated. In a blink we went from running business as normal to being in lock down in our homes, unable to do business as usual while at the same time having clients who felt very much the same way.

Beyond the technological challenges of working remotely, we have encountered unique and daunting planning issues during in the last six months.

At the beginning of this outbreak, we knew it was crucial to communicate with our clients. We went from working in an office environment to having the entire team working from home. We wanted our clients to know we were still available to them. We reached out using phone, email and Zoom to make sure we checked in on our clients and let them know we were there for them.

We also found that many clients needed planning. This is where being a CFP with a planning-based approach has been helpful. We have helped clients navigate cash flow, uncertainty, and change.

During a time like this, advisors need to be front and center with their clients. Most of all, our clients need to know that we are a resource for them. When they are concerned about the economy, their jobs or their businesses, it is crucial that we help them understand where their assets are, what options they have, and how this pandemic affects their overall planning.

Many investors were panicked about the stock market. Volatility can drastically change a person's portfolio. We often utilize a strategy of diversifying portfolios between risk-based assets like stocks and guarantees. We like the guarantees provided by assets like life insurance and annuities.

By building assets this way, a client who needs to draw from their funds immediately has a bucket of money that is not subject to the downturn in the market, preserving their stocks and allowing them time to rebound. This strategy effectively mitigates sequence- of-return risk by providing an alternative asset from which to withdraw the funds.

Because our clients have multiple buckets from which to draw from, it was less difficult to bridge the gap of uncertainty in the first few weeks of the pandemic. We were able to pull from assets such as fixed annuities and life insurance, which we use as a buffer for unforeseen conditions like these. By not pulling funds from investment accounts, we were able to ride out volatility and preserve assets. If we had been forced to liquidate accounts while they were down at the beginning of the pandemic, we might have done irreparable harm to a client's portfolio.

Let me illustrate with a simple example. Let us say a person has $100,000 in a stock portfolio. They are well diversified and planning not to touch the funds for the long run. However, the pandemic hits. Because of market volatility, their portfolio drops 20% to $80,000.

Now the same person needs to get to some of their funds to tide them over during the pandemic (e.g., they lost their job and cannot cover all their expenses). Let us say they need to take $20,000 out of their portfolio. That person takes $20,000 out in an inopportune time (which is so often when people must take their funds out). Now that person has $60,000 because the market has fallen.

If that person had had alternatives to stocks, they would be able to ride out the market and the funds could recover back to $100,000. If that investment had dropped down to $80,000, it would take a 25% rise in the market to get back to even.

On the other hand, if that person withdraws those funds when the market was down, it will take a greater than 65% return to get back to $100,000! It is almost an impossible task. However, investors often do not take this into account when they feel like the only solution is simply to invest in one index or ETF. Over time they will do well. But in times like the pandemic, if they do not have alternative assets to access, they will compromise their plans significantly.

Diversifying our clients' portfolios has allowed them to continue to keep their assets in investments while having access to much-needed funds during a crisis. It allows our clients to achieve what is most important when it comes to investments: growth over time.

Our firm has always believed philosophically in diversification of assets classes for better outcomes. This philosophy has prepared our clients for downturns. Fixed or guaranteed products like annuities or life insurance are a buffer asset that is an alternative to cash with improved outcomes and additional benefits.

We call this philosophy "goal protection savings" (GPS). By understanding our client's goals, protecting them from risk, and helping them save for the future, we create a holistic plan that is made for all times, including unprecedented ones like these.

Annuities, especially single-premium immediate annuities (SPIAs), provide guaranteed income for basic living expenses. Annuitization provides a fixed stream of income, eliminating the need to reach into investment assets during downturns in the market.

An annuity provides flexibility to a client, but only when it is carefully selected and vetted to meet the rating, fee structure, and benefits to their objectives.

For example, consider a couple that is looking to retire in five, 10 or 15 years. If they know that they have a source of income upon retirement, they can pursue their long-term appreciation goals through strategic asset allocation without fear of untimely market downturns.

On the other hand, investors who otherwise would not invest in stocks may want to consider a variable annuity, which can rise and fall with the underlying securities market, but will preserve principal.

Clients' objectives change over time, and that is why the annuity needs to be flexible and well-considered. Advisors should ensure their clients fully understand the term of the annuity. If properly selected, annuities are as close as possible to a lifetime pension or defined-benefit plans of the past.

Life insurance can serve as a buffer asset that is fixed and can be accessed in times of uncertainty of need. This allows us to add risk mitigation while utilizing the value of the cash value growth in a whole-life policy as an additional asset class. It can also provide much needed liquidity during a downturn, allowing investment assets time to grow or recover while giving access to cash when needed.

Planning for a pandemic was certainly never a thought when we built our practice. However, planning for the unexpected, for ups and downs in the market as well as other risks such as mortality, disability, and long-term care, can be incorporated into a holistic plan. This leads to a more diversified portfolio and better outcomes that protect the client from invariable change.

This holistic approach not only serves our clients but also gives us as planners better options with which to plan. It is our duty as planners to make sure we guide our clients to understand the value of a holistic process that incorporates risk management, accumulation and distribution.

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