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# A good spending plan is essential for a good financial plan.

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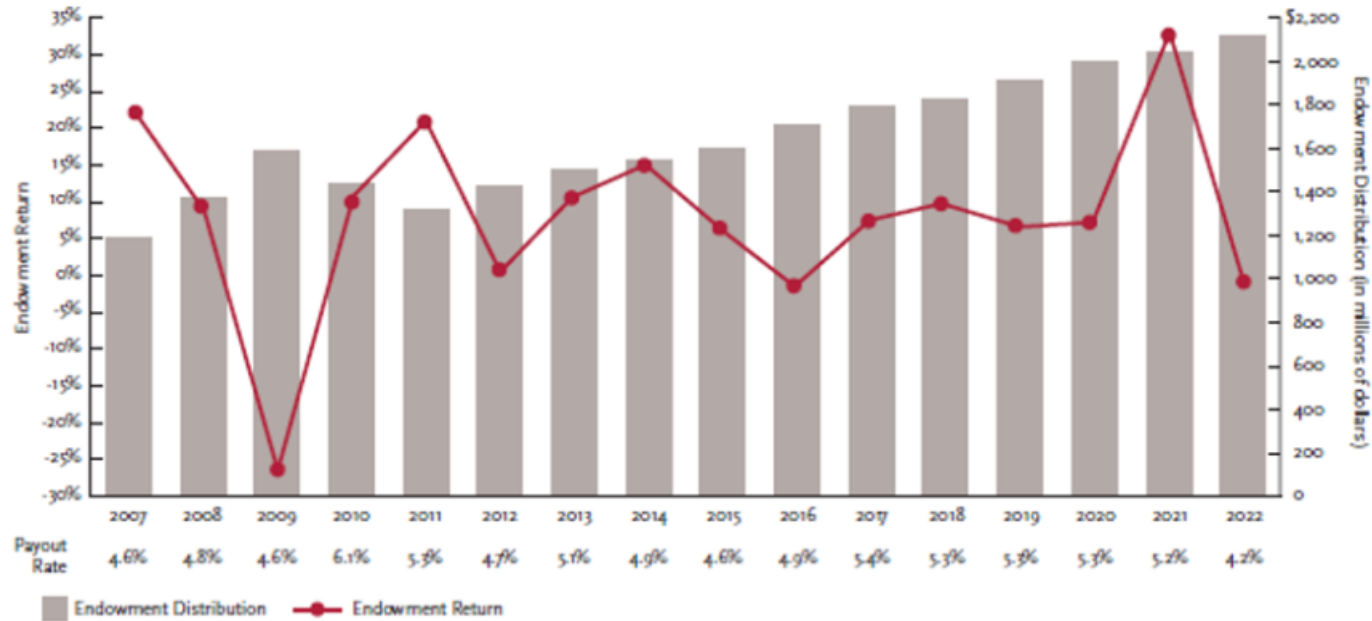
## A good spending plan is essential for a good financial plan

- What's the goal of financial planning?
- What's in a good spending plan?
- An example
- Why bother?

# The really big also need spending plans...

## Harvard Foundation returns and spending

ENDOWMENT RETURNS MADE AVAILABLE FOR OPERATIONS BY YEAR



## What's the goal of financial planning?

- Maximise quality of life in retirement
  - Spending
  - Peace of mind

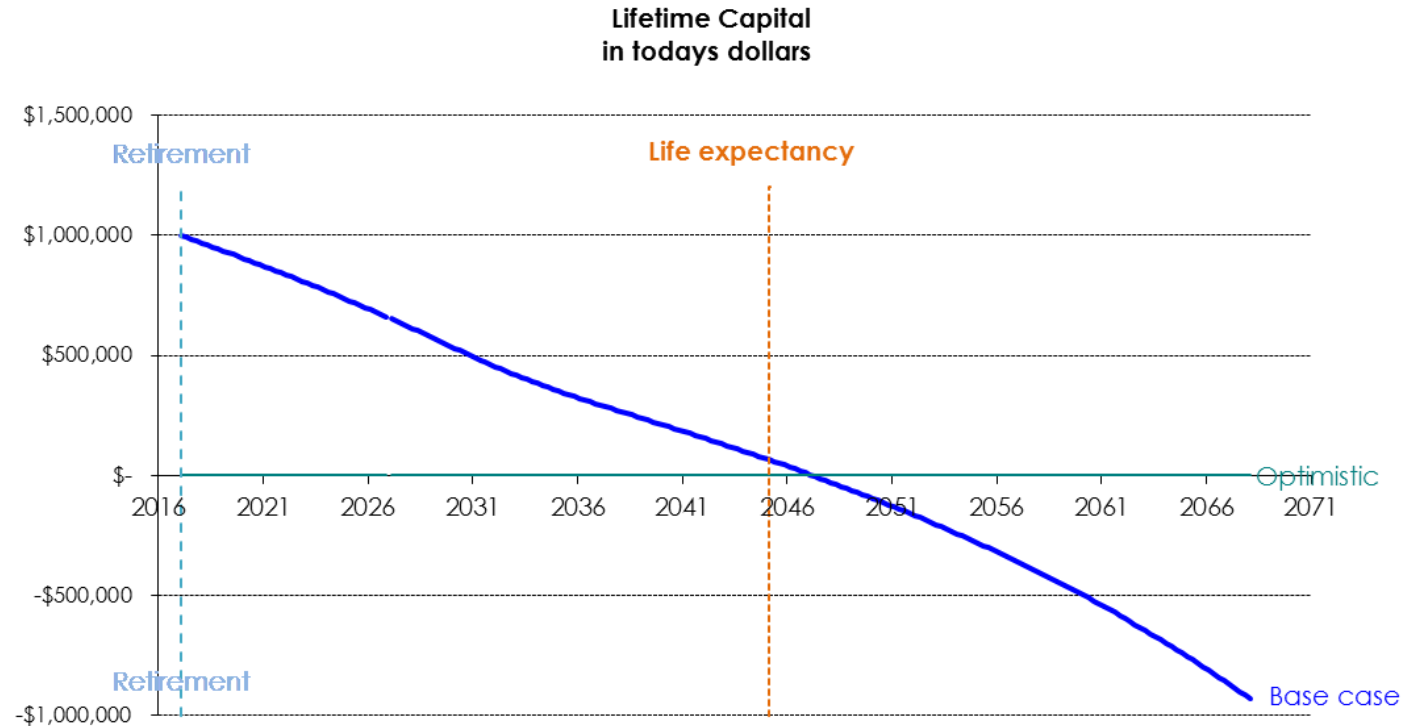
## What's in a good spending plan

- How much can I safely spend given uncertainty?
- How will my spending change over time?
- How often will we review that spending?
- How will we review that spending?
- What actions will we take?
- Am I on track?

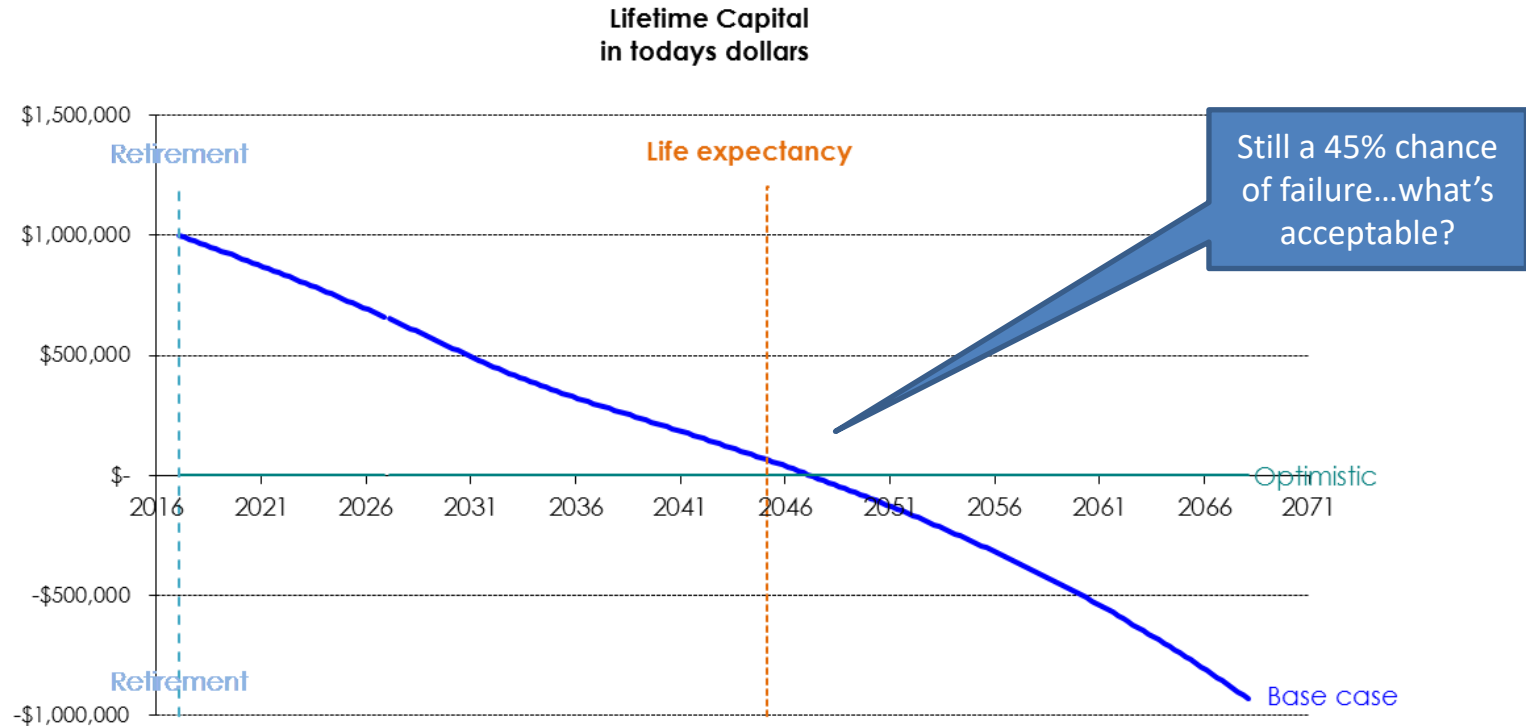
## Case study :Elvis

- Aged 65
- Retired
- \$1,000,000 of assets in super
- Own home
- Life expectancy 93
- Hopes to spend \$75,000 pa indexed to CPI

# Case study : Elvis spends \$75,000 pa

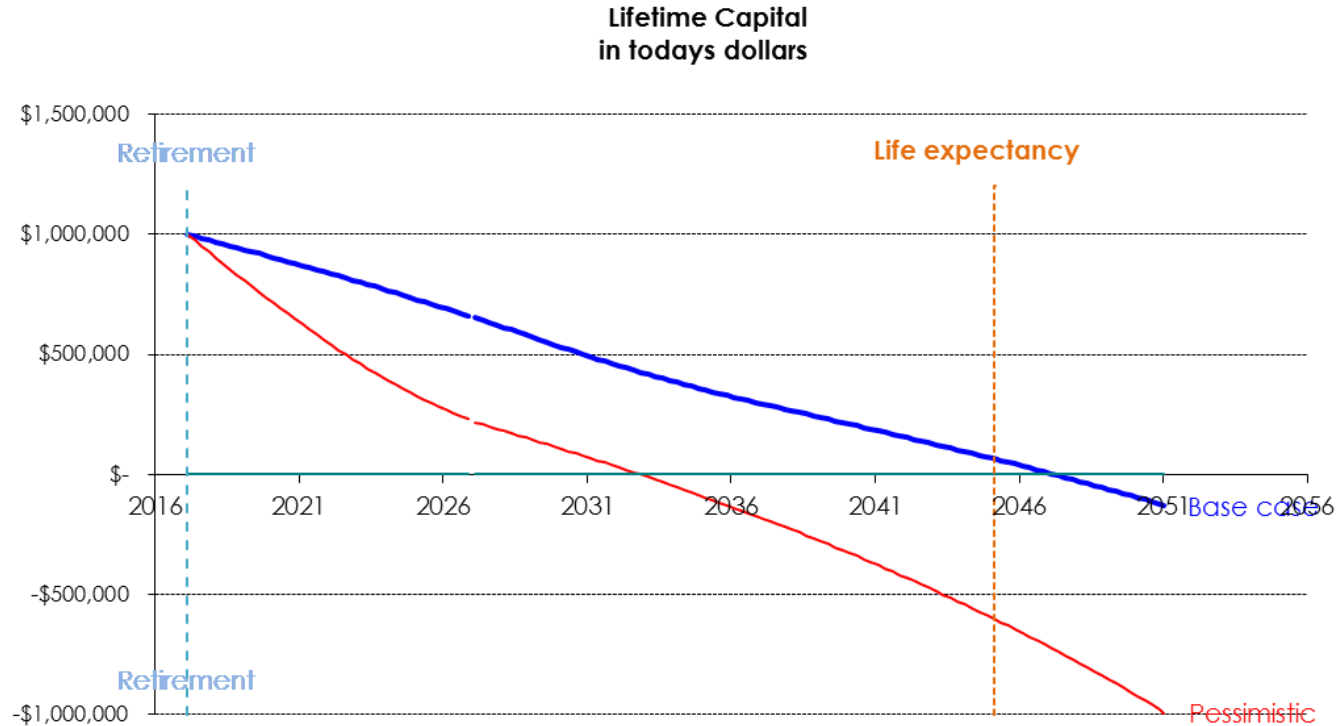


# Case study : Elvis spends \$75,000 pa

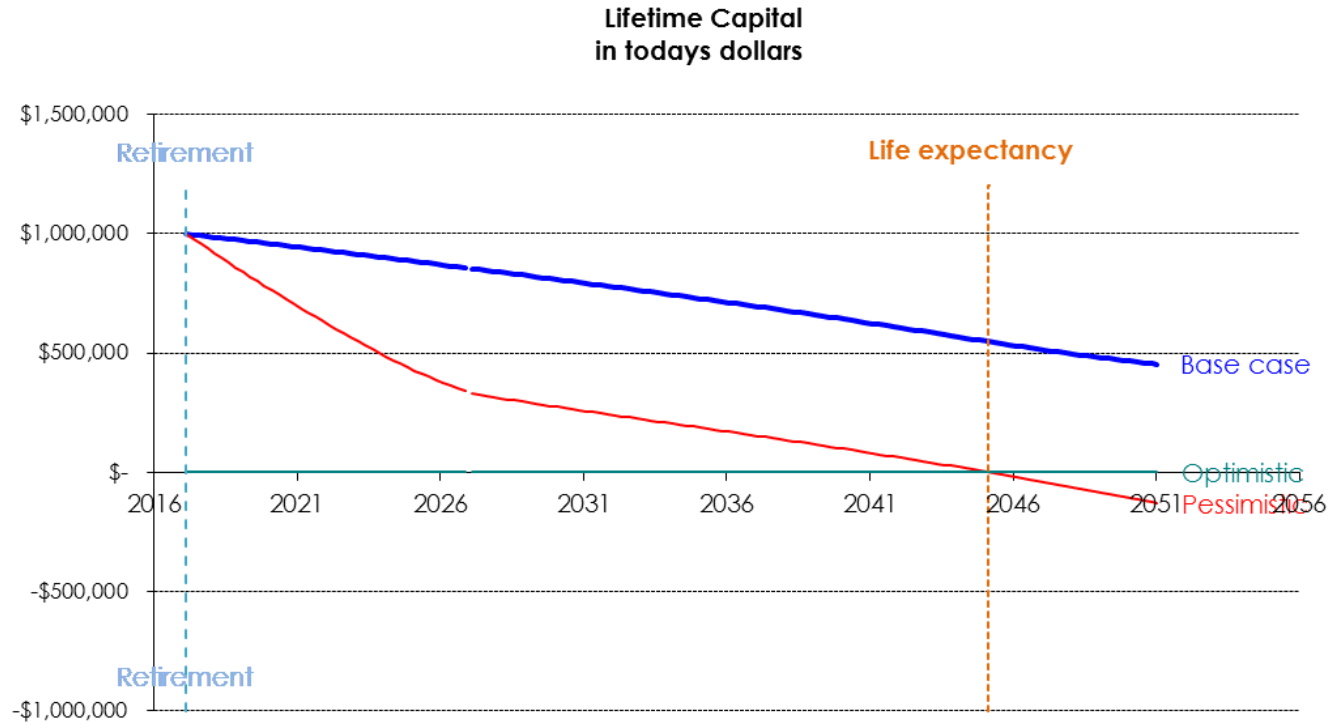




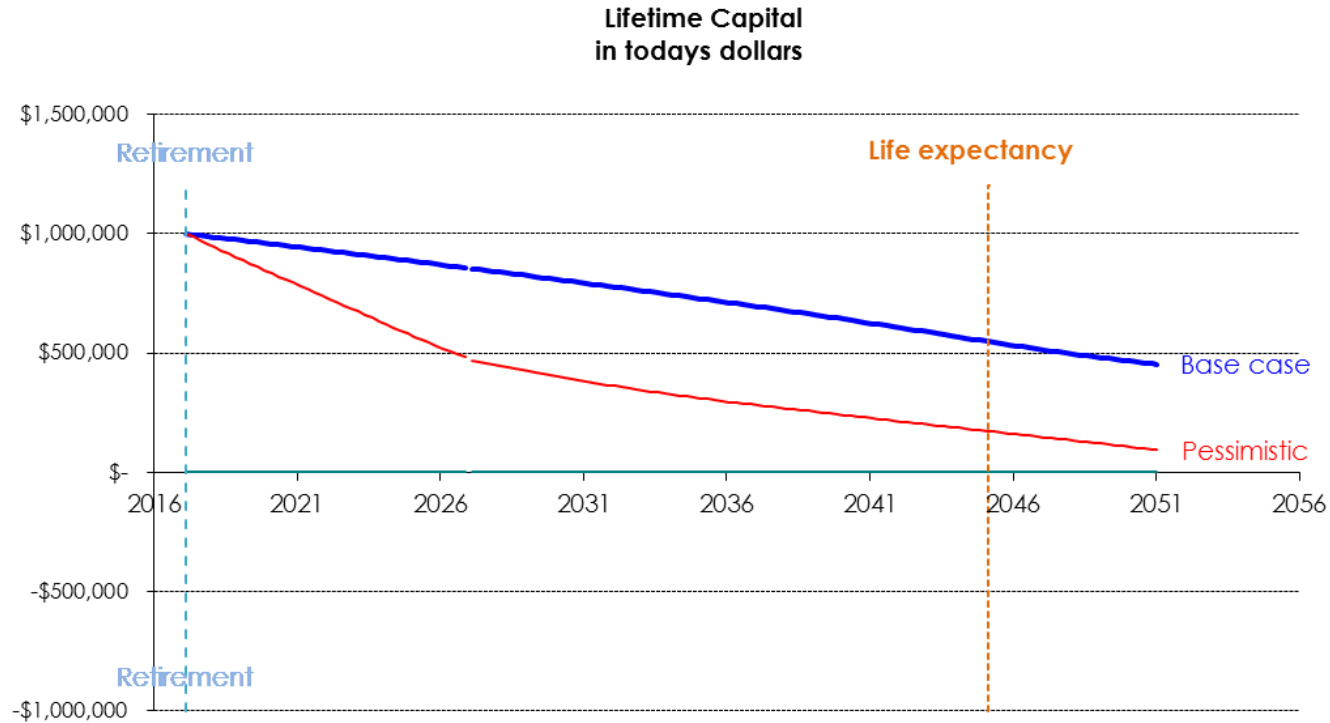
# \$75,000 pa – with a 1 in 20 pessimistic scenario



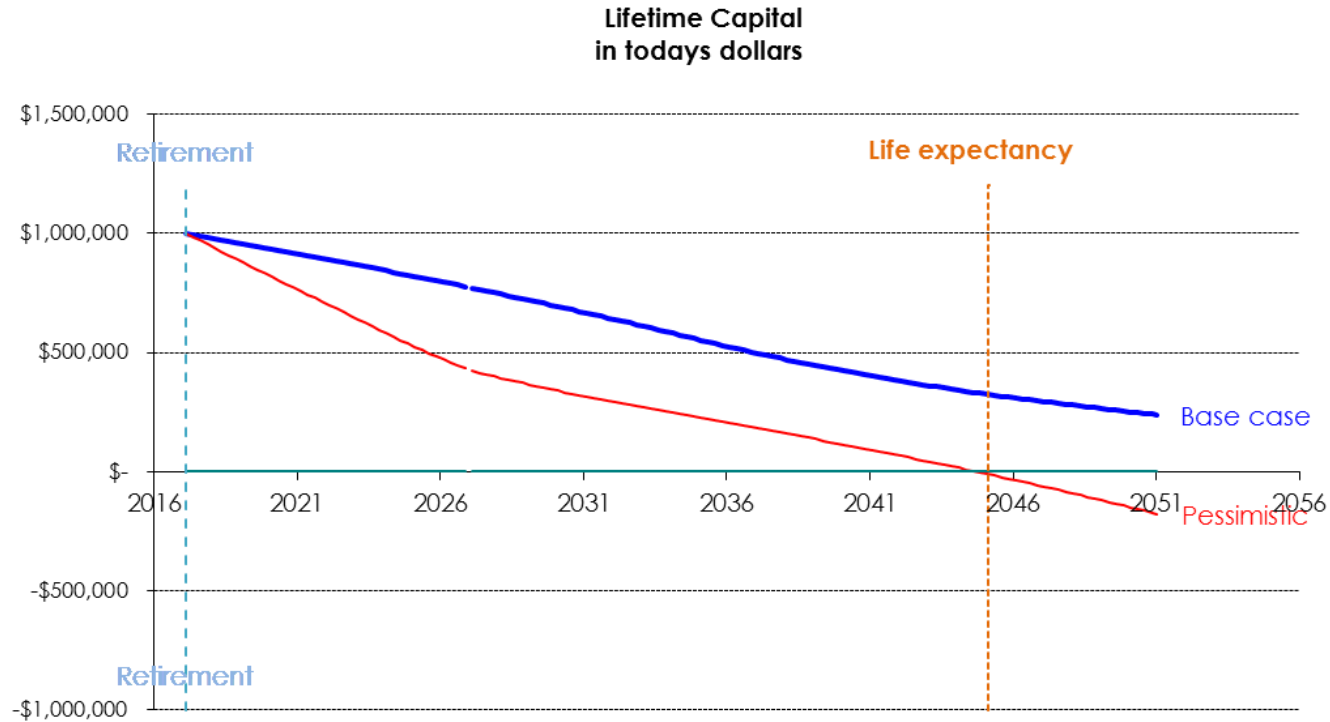
# \$58,000 pa and 95% confidence



# \$58,000 pa with 80% confidence



# \$65,000 pa with 80% confidence



## Elvis' spending plan

- Will spend \$65,000 pa
- Will increase by CPI less 1% each year
- Review annually
  - What is the chance my capital lasts beyond life expectancy?
  - If confidence is between 70% and 85% go with the plan
  - If confidence falls below 70%, decrease spending to get back to 70%
  - If confidence rises above 85%, get a pay rise to bring confidence back to 80%

## Spending plans add real value

- Elvis gets to spend 12% more immediately
- Probably even more over time...
- Like having another \$120,000 in assets

## What do investors really care about?

- What return did I get last quarter?
- What return did I get last year?
- How much am I worth?
- Am I on track to meet my lifestyle goals?
- What's the chance my money run out?

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## Benchmark your spending planning methodology

- Do my clients' spending plans meet the criteria?
- Do they embrace uncertainty of outcomes?
- How well do I communicate with my clients about whether they are on track?
- Do I have a well articulated plan for what we will do if we faring better of worse than expected?

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## A good spending plan is essential for a good financial plan

- Benchmark your spending plan methodology
- A good spending plan will outline
  - how much I spend over time – given uncertainty
  - how and how often we review
  - what will I do if I am no longer on track
- A good spending plan maximises spending and reduces worry



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