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The True Meaning Of Holistic Planning

Accounting for your client's 'total wealth framework'



by Lane G Martinsen, Certified Financial Fiduciary, RICP

Mr. Martinsen is CEO of Martinsen Wealth Management, in Chandler, Az. He is author of The Holistic Retirement Planning Revolution and host of the YouTube channel 'The Financial Fast Lane.' Visit youtube.com/financialfastlane.

Most individuals assume when they walk into a financial advisor's office, they are receiving the best investments and advice to achieve their financial goals. These are

not just goals, but goals filled with a lifetime of blood, sweat, tears and dreams. Just as a patient puts their life into the hands of a surgeon before an operation, individuals trust that the advisor sitting across from them will not only be qualified but have their best interest in mind. Unfortunately, that is not always the case.

Holistic or "Half-istic"

"Holistic planning" and "fiduciary" have become marketing buzz words but relatively few advisors actually provide true holistic planning. Some advisory firms have expanded their services to include some elements of holistic planning and now refer to themselves as holistic planners when in reality they are only "partially holistic" which is an oxymoron. Not implementing new financial strategies when building a client's portfolio will result in missed income opportunities. The financial professional who is not looking at a holistic picture to optimize all of a clients' assets could create shortcomings that can have a detrimental effect on long-term savings, including significant losses, underperforming the market and not keeping up with inflation.

A Holistic Plan is Whole

A holistic financial plan prepares individuals for retirement by examining the various elements that make up a client's total wealth framework, not only investment accounts but mortgages, tax strategies, health care, long-term care and estate planning. The value of this type of plan is found in identifying strategies that enhance retirement efficiency over time. Often efficiency has little value in the short-term but great value over the long-haul. This kind of comprehensive retirement plan identifies inefficiencies, risks and weaknesses in one's portfolio and incorporates financial tools that are customized for individual circumstances that can help retirees enjoy their golden years.

The end result of holistic financial planning for many clients can result in substantially more wealth and retirement income. Individuals that do not use a holistic approach to planning their portfolio will, as a result, have less wealth in retirement. This is a mathematical fact.

Synergy

Alpha and Beta measurements are typically limited to an investment portfolio, whereas the creation of "Gamma" is the remarkable value provided through holistic planning. Gamma is the term used by Morningstar academics to measure additional income realized as a result of holistic planning. Morningstar's 2013 study titled "Alpha, Beta, and Now...Gamma" was able to quantify a 22.6% increase in retirement income using only five strategies: total wealth (including Social Security), withdrawal strategy, incorporating additional income products (i.e. annuities), tax-efficient decisions and liability-relative asset allocation optimization. There are 19 additional financial planning decisions outside the scope of alpha and beta. The Morningstar study did not attempt to examine all possible strategies and even excluded some of the major tactics, but researchers were still able to document a significant increase in income for retirees. For example, the Morningstar study did not include the

As Quoted...

"Benefits brokers and advisors can protect their healthcare clients by ensuring their disability insurance covers mental health and substance abuse events that are disabling in nature. Many policies limit benefits or exclude these types of disabilities from coverage."

Jeff Brunken, president of MGIS, a disability specialist, from his article, [Advising Health Care Clients In A Post-Pandemic World](#).



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long-term impact of Roth conversions in an increasing tax environment nor did they consider the use of a HECM reverse mortgage line of credit. When all applicable strategies and tools are available and customized for a client the additional or increased retirement income can be life changing.

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While more advisors are learning how to be holistic planners, the vast majority continue to utilize a narrow alpha beta focus, and limited set of traditional strategies when planning for a clients' future.

True holistic planners and fiduciaries will be agnostic towards the products they choose for clients. Product bias will not exist with a true fiduciary planner. The financial services industry, for the most part, is divided into two different schools of thought. In my book, *The Holistic Retirement Planning Revolution*, I categorize the various financial products into two general groups, "Red Financial Tools," that offer investment solutions and "Green Financial Tools," that offer insurance solutions. Often financial advisors have a bias towards using one or the other. The truth is both sets of financial products have unique strengths and weaknesses. It's not about which solution is better, it's about what is the precise combination of product attributes that best solve a client's unique needs within our changing economic landscape.

A retirement plan using only green tools or only red tools will not be nearly as efficient as a plan that leverages the strengths of all available tools.

Holistic and Traditional Plan Comparison with a New Client

Showing clients what you are capable of doing for them builds their belief in your abilities as a financial advisor. Since most advisors spend a lot of time trying to drum up business, wouldn't implementing a holistic plan for clients not only be beneficial to them but to your practice as well. The best marketing tool is a referral!

Here are three steps to get you started:

- When beginning the planning process with a new client, start with a traditional alpha beta approach and Monte Carlo simulations.
- Then implement a holistic planning approach by including additional financial strategies.
- Compare the two models by stress testing both models searching for potential risks such as sequence risk, increasing tax risk, etc. The holistic strategies reduce many of the risks a retiree may face over their 25 or 30 years in retirement and provides more predictable income.

Case Study

A married couple, both age 63, came into my firm, Martinsen Wealth Management, to evaluate their retirement options, hoping to retire in the near future. They both expected to live well into their 80's and possibly 90's. They were concerned that they had not saved enough to retire and felt that the only option was to continue to work for as long as they were physically able. A traditional alpha beta projection was created based on their income needs. It was immediately identified that they would, in fact, deplete their 401k portfolio about mid-way into retirement if they took the traditional financial approach to retirement (assuming no unexpected financial expenses would turn up). When stress tested, the portfolio was depleted several years earlier.

Afterward, a holistic model was created. The additional income "gamma" created was a game changer for the couple. In this particular scenario, a HECM reverse mortgage line of credit was recommended, something the couple had never considered. As a result, they increased their Social Security benefit by 32% by earning delayed credits.

Using income annuities as an alternative to low interest bonds and diversifying the couple's pre-tax money through a direct rollover and a multi-year Roth conversion strategy lowered their provisional income number and made it possible to avoid taxes on their Social Security benefits. The mortality yield from the guaranteed income annuities provided additional income based on their longevity. A life insurance strategy was also implemented with living benefits that would double as protection against a long-term care event and provide more tax-free income for the surviving spouse. This also increased the possibility of leaving a legacy for their children. Lastly, we provided estate planning to get documents organized.

The end result of the holistic plan reduced a number of major risks to their portfolio and extended their income well past life expectancy. Through the holistic planning process, the couple easily understood each of the strategies and which solutions were guaranteed and which were based on market performance. Breathing a sigh of relief, they were amazed with what was accomplished and were able to retire with confidence.

Gamma is a big deal!

Although it's a small number, there are still advisors giving limited and outdated advice. Change can be difficult, especially when a company has been following the same protocol for decades. Independent, holistic, fiduciary planners have a huge competitive advantage from the big box financial firms.

I think of companies like Sears - it's a sad story. They were the amazon before Amazon. With the Sears mail order catalog, you could order almost anything, and have it shipped to your home. If Sears would have had the vision to stay current with the changes in technology and innovation, I believe we would all be ordering everything from Sears.com instead of Amazon.com...

Holistic planning is about providing real value for clients. The tremendous benefit a client can receive from a true holistic plan is huge, and far greater than what a well-known advisory firm that solely relies on what traditional alpha beta investing can provide.

There are many risks retirees will face throughout their retirement years, risks that can erode and deplete their assets and income. These risks cannot be managed with a simple alpha beta investment approach.

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Times are changing and innovation within the financial services industry should not be underestimated. Not only are financial advisors doing clients a disservice by not following a holistic planning process but advisors and firms that are unwilling to learn and change will find themselves obsolete as well. ◇

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