

# Interpreting the PAA Worksheet

February 22, 2022

## The PAA Worksheet

The process of completing the PAA Worksheet can reveal highly important information. Results should be checked for the following conditions and if found, the next step is to review the estimates and approximations that are being used. After establishing that the estimates and approximations are reasonable, the related curative actions should be considered and prioritized.

### *Investor Is Financially Able to Retire*

This is indicated when the value of Growth component is greater than the **“Required Growth Component for Retirement”**. Conversely, retirement is not suggested when Growth component is substantially less than required.

### *Growth Assets Are Improperly Allocated*

A mistake is indicated when the Growth component holds cash or other conservative assets. If accessible, these assets should be transferred to the Preservative component. If inaccessible, the conservative assets should be converted to assets that are suitable for the Growth component. If more Preservative assets are needed, accessible Growth assets should be transferred to the Preservative component.

The consequence of this miss-allocation is potentially reduced returns for the investor.

### *Preservative Assets Are Inaccessible*

Preservative assets must be held in the form of payouts or in accessible investments. Preservative assets should not be held in accounts where there are restrictions on withdrawals. Inaccessible accounts may include retirement plans, education plans or certificates of deposit.

### *Insufficient Growth Assets*

The PAA Worksheet can indicate a **“Transfer from Growth”** that requires more funds than are available in the Growth component. Such shortfalls can occur at any of three life stages, early, midlife or late.

Early stage shortfalls are primarily because the investor has not yet accumulated sufficient assets to cover contingencies. This is normal in early stages and is cured by diligent savings efforts to build the Preservative assets and lower the demand to transfer from Growth.

Midlife stage shortfalls occur most often because the investor is planning to spend more than the income can support. The cure is to reduce or delay purchases into the future.

Late stage shortfalls are normal and are due to the draw down of assets for retirement. The **“Required Growth Component for Retirement”** should be checked annually to ensure that the drawdown is not too rapid.

### *Investor is Unprepared for Emergencies*

Up to five years of spending are held in the Preservative component that may be used in an emergency. Immediately after the emergency is funded, the PAA Worksheet should be updated and any necessary changes made.

### *Current Year Spending May Not Be Sustainable*

If a “Transfer from Growth” is indicated because of an item(s) that will be repeated in the future, other changes are necessary for financial security.

### *Shortfall is Forecasted*

When the “Usage” in any of the five years exceeds the “Additions” for the corresponding year a possible shortfall is indicated. This indicates that in the shortfall year, the investor is relying on accumulated assets to fund the activity. This is not problematic unless the magnitude and/or frequency of the shortfall is excessive.

The issue is most easily addressed by “borrowing” from a future year. If this is not desirable or feasible, the cure in the case for excessive shortfalls is to consider reducing expenses, delaying retirement or seeking additional employment.

### *Lifestyle Changes Are Necessary*

If there are one or more indicators that the forecasts need to be revised, it may be necessary to make major changes to increase income or reduce expenses that will affect lifestyle. This process should begin with the largest expenditures since small changes here can produce significant results. Planned major purchases can be deferred or avoided entirely to achieve financial security.

### *Investor Is Unable to Retire in the Near Future*

If Growth component is significantly lower than the amount shown in “**Required Growth Component for Retirement**”, retirement needs to be postponed or lifestyle changes planned.

If the investor is uncomfortable with the PAA Worksheet results, several actions can be taken to make adjustments:

- Increase or decrease the “**Additions**” for the next five years
- Increase or decrease the “**Usage**” for any of the next five years
- Delay taking action until after the next review when facts or market conditions are clearer