

Top 5 Investment Considerations for Baby Boomers

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The market gyrations of the past few weeks, including the uncertainty surrounding the government's potential bailout of Wall Street, serve as a stark reminder of why financial planning is important. Because of the timeline, this may be even more true for baby boomers than for their parents' or children's generations.

The closer boomers are to retirement, the more attention they should be paying not only to their investments, but to their financial plans as a whole. And with the emerging new-financial-world order, they are no longer confident that many of their previous plans for retirement will come to pass. As is generally true with financial planning, their considerations are interrelated, and most lead back to the same question: "Will we have enough money to live the way we want to for the rest of our lives?"

Against that backdrop, here are five investment considerations for baby boomers to be thinking about.

1. What's in the cash-flow hole?

The first step is to have an honest look at cash flow, without which planning is a deep, dark hole. "Baby boomers are really bad at cash-flow planning, much more so than the silent generation," said Lisa A. Kirchenbauer, CFP, a registered life planner who practices in Arlington, Va. This may be in part because boomers have been sheltered from financial concerns by their parents, who were brought up in the shadow of the Depression, she explained.



Boomers may need to monitor their spending habits more than they may be accustomed

For whatever reason, boomers have built up a resistance to keeping track of what they are spending. This assessment doesn't have to be done in great detail, Kirchenbauer

said—“you just have to learn what’s coming in and what’s going out.” Only then can investors form a realistic picture of how much they will need in retirement. And it’s possible that by looking at cash flow, boomers will find some sources of cash to invest to make the nest-egg grow between now and then.

2. Am I too close to the edge?

According to Larry Swedroe, principal and co-founder of Buckingham Asset Management, age and the approach of retirement should impact investors’ ability, willingness and need to take risk. As boomers look ahead to the next phase of their lives, they may need to revisit their asset allocation to ensure that it is aligned with their current risk profile.

Commentators and studies say that many older boomers are not making the transition from accumulation to capital preservation. In short, they are stuck on equities and won’t easily give up the lure of high returns. Nearing retirement, there is less time to make back big losses, so investors need to take less investment risk. That may mean putting a smaller portion in equities, which carry more risk than bonds, cash and some alternative investments. It also may mean investing in safer equities and diversifying to include a variety of assets that behave differently in up and down markets.

For baby boomers, Kirchenbauer said, “this is a good time to revisit their international investments and take a more growth-oriented approach.” Even older baby boomers can allocate 20 percent to 25 percent in international investments, she advised. Swedroe wrote in his new book on alternative investments (to be published in November by Bloomberg Press) that the advantage of international diversification comes “from the relatively low correlation among international securities. This is especially important for those who are employed in the United States, as it is likely that their intellectual capital is highly correlated with domestic risks.” The book demonstrates how putting some international allocation into small-cap and value stocks and/or emerging markets can benefit a portfolio not only by bringing in higher returns, but also by diversifying your holdings and cutting down on the risk.

3. How often should I look?

Many passive investors are in the habit of reviewing their holdings only when they make annual contributions to retirement plans. Kirchenbauer said this schedule should change as boomers approach retirement. “Whether you rebalance or not, baby boomers should review your holdings at least four times a year,” she advised. “If you are transitioning a portfolio to lower your equity allocation, you might want to rebalance that often.”



Some investors prefer to be passive, but they should still frequently review their holdings

Rebalancing can be difficult psychologically because it's counter-intuitive. "It's hard to get people to rebalance in times like these because they think they don't want to sell bonds and buy equities, but that's what would be required," she said. Most financial planners advise clients to sit tight while the market is volatile. There's no need to look every day, or even every week, but the regularly scheduled reviews remain important.

Swedroe added that it is important to rebalance whenever the investor has "new cash." This might come from a bonus, gift or inheritance, or when cash distributions come from current investments, for example.

4. How deep is the hole?

It's also important for baby boomers to have a look at their debt and consider whether it should be restructured. Boomers tend to put too much on their credit cards, and generally they carry a lot of debt, Kirchenbauer observed. One debt consideration is whether to restructure the mortgage – to pay it off, refinance to get a lower rate or adjust the term. "Boomers may not have pensions they way their parents did, so having a smaller or no mortgage may be helpful," she said.

The most important thing is to "make a conscious decision. One mistake a lot of baby boomers make is to downsize without thinking about retirement. They need to think through where they want to live" and whether they intend for their next abode to be "the last house," Kirchenbauer said. This means thinking about whether there's room for all the grandkids to visit at once and how often that's likely to happen, as well as whether it's all on one floor or the hallways are wide enough for wheelchairs, she said.

Going into retirement is an interesting time to downsize, according to Kirchenbauer. For example, if you move to a less expensive market, you may be able to pay cash for the

next house and not have monthly payments at all. At the moment, however, it's a good time to buy but a bad time to finance a home purchase. Potential downsizers should be prepared to go through hoops if they need a substantial mortgage and plan time into the schedule on both the buying and selling ends, she said.

5. How do I get there from here?

Just thinking of retirement is scary for some people, and thus the mantra for many baby boomers is, "I'm never going to retire anyway, so why all the fuss?" But even those who don't look forward to weeks or months of unstructured time will make some changes as they age, and those changes will likely affect their cash flow. For example:

- *Will you take immediate retirement, or go through a transition?* Working part-time or having a retirement business can help boomers delay taking money from their tax-advantaged accounts and stretch their holdings.
- *Will you need to monetize your equity in your long-time business to generate cash-flow when your earnings drop?* Some consultants say business owners need at least 10 years to plan and bring about an orderly succession. Others say succession planning should begin at the latest when the owner turns 50.
- *If Social Security and investment earnings outside of tax-advantaged plans won't bring in enough cash to live on enough, what's the best way to generate cash-flow?* Boomers aren't yet approaching the age when they are required to begin distributions from IRAs and 401(k) plans (70½), but they may want to consider distribution planning well in advance of that date so they can restructure their investments accordingly. For some boomers, particularly those with smaller nest-eggs and/or longer-than-average life expectancy, investing a portion of their holdings in a fixed annuity might make sense. Swedroe suggested looking into "longevity insurance," a fixed annuity in which payments are deferred until the annuitant reaches a certain age.

The common thread in all these considerations—and the factor that makes them difficult for baby boomers—is that they all involve dreaded planning. Perhaps the first step is to crack the nut—come up with a rough cash-flow analysis showing where your money comes from and what you're doing with it. The rest can follow from there.