

Retirement dream could be a nightmare

Boomers' meager savings won't support them in old age

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for Virginia Business
July 2007

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John Lewis gets a bewildered stare from many baby boomers when he asks about their financial plans for retirement. "They don't have the time or energy to do the planning," says Lewis, senior vice president of Alexander Key, a division of SunTrust Investment Services in Richmond. "One client looked at me and said, 'I'm tired. Can you help me?' These folks want to smell the roses, but they don't know how to do it."

The nation's 78.2 million baby boomers are growing old, but some of them refuse to grow up. The generation born between 1946 and 1964 once defined youthful rebellion in America. Today 330 baby boomers turn 60 every hour. Their gray hair, however, has given them little wisdom about retirement. Only one in five boomers has any type of formal financial plan for the future, according to Connecticut-based LIMRA International, a worldwide research, consulting and performance improvement organization that works with insurance and financial services companies.

The boomer attitude of I'll-do-it-when-I-get-to-it worries financial adviser Dan Mannen. "The most difficult challenge the boomers face is finding reliable sources of income that they won't outlive," says Mannen, who works for Williamson, Rohr & Swartzwelder, the financial advisory practice of Ameriprise Financial in Richmond. "The aging of America has shifted in terms of benefits. Funding for retirement has moved from companies and the government to the shoulders of individuals."

Previous generations eased into retirement using money from a company-sponsored pension or Social Security to fund their golden years. But times are changing. Companies are reducing or eliminating pension plans, and there are no guarantees when it comes to Social Security. All of this is developing at a time when people are living longer, thanks to technology and medical advances. But even with that, there's a caveat — those extra years may be fraught with medical problems, draining finances. "Life expectancy is almost double that of 100 years ago," notes financial adviser Marc Cram of Citi Smith Barney in Richmond. "That extends and changes the retirement planning years."

Today's longer life expectancy could pose a two-pronged danger for boomers. First, they are likely to outlive their current meager retirement savings. Second, boomers may not benefit from a long-expected lifeline, a hefty inheritance from their parents, the thrifty members of the World War II generation.

For years, some economists have predicted boomers will benefit from the largest transfer of wealth in history, expected to be counted in the trillions of dollars. But others think this inheritance bonanza is more myth than reality, and boomers that believe in it are in for a rude awakening. Skeptics point out that the wealth of many people now in their 70s and 80s is rapidly being consumed by medical expenses and nursing home costs. "There is a huge discrepancy and many opinions about wealth transfer," says Mannen. "With the uncertainty of this issue, it's critical for people to plan with the assumption that they will not inherit significant dollars from their parents. They need to be able to rely on their own assets."

Like Lewis, Cram is surprised at the number of his 50- and 60-year-old clients who haven't created a financial plan. "They often don't know if they have enough money to retire or if they can retire," he observes. "That is what building a plan is all about: Where you are today and where you want to go."

Baby boomers can live a comfortable lifestyle in retirement if they successfully transition from the wealth accumulation phase of their lives to the distribution (retirement) phase when they begin to pull money out of their portfolio.

There has to be a major change in the way people manage their money as they move into retirement," says Mannen.

He points to five key risks that baby boomers must consider as they approach retirement — longevity, inflation, asset allocation, withdrawal and health-care expenses. Consider this. If a couple reaches 65, there is a 50 percent chance that one of them will live to the age of 92; a 25 percent chance that one will live to 97. "Baby boomers don't look at the fact that they may be living as long in retirement as they have lived saving for it," says Donna Wood, owner of Wood Smith Advisors in Haymarket. "Baby boomers need a reality check on their lifestyle. They need to separate out expenses into two categories: essential, things they can't cut back on, and discretionary, expenses such as travel and new cars."

Mannen sees purchase-power risk as one of the greatest issues that baby boomers face in retirement. "You've got to be aware of it," he says. "At 4 percent inflation rate, \$50,000 would only have the purchasing power of \$18,756 in 25 years."

Because of the increasingly short time they have to save for retirement, aging baby boomers are more vulnerable to downturns in the stock market than younger generations. That means that moderation — not being too conservative or too aggressive in investments — is a wise choice when considering asset allocation. One of the key elements in planning is knowing your risk level — how much you have and how much you will need to live the lifestyle you want to live in retirement.

Asset diversification is the best way to protect your portfolio, say advisers. "You want to have a variety of saving vehicles that you can pull from," says Lisa Kirchenbauer, president of Kirchenbauer Financial Management and Consulting in Arlington. Those investments could include different forms of taxable income such as stocks and bonds, as well as tax-

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To retain the appropriate investment mix, Wood suggests monitoring your portfolio on at least a yearly basis. "If you let it sit still, it could change," she explains. For example, a portfolio made up of 40 percent bonds and 60 percent stock could shift to a mix of 60 percent bonds and 40 percent stock because of activity in the stock market. "You want to not only monitor but also rebalance your portfolio [to its original mix] annually," says Wood.

Kirchenbauer asks clients to think of their career as part of the asset management process. The benefit: Working longer can increase your assets. "You want to manage your career strategically. You don't have to stay in the same job if you don't like it," she says. "Find something that will suit you and you enjoy. You may only work part-time, but working will help extend your financial stream and keep you active and healthy at the same time."

When the time comes to pull out money for retirement, be aware of withdrawal rates. Mannen explains that if you retired in 1972 and withdrew money at a 10 percent rate from a portfolio that consisted of 50 percent stocks, 40 percent bonds and 10 percent short-term investments that constantly fluctuated, your assets would be depleted in 10 years. At a 4 percent withdrawal rate, they would still be growing after 26 years. "If you pull off 3½ to 4½ percent over time in a well-diversified portfolio of stocks, bonds and fixed assets, it should continue to last throughout your lifetime," he says.

Long-term care insurance is crucial to any retirement plan because it protects against the ever-rising cost of long-term care. "I've seen how health-care costs can decimate a family's finances," says Cram. The Genworth Financial 2007 Cost of Care Survey lists the average daily cost for nursing home care in Virginia at \$167 — more than \$61,000 a year. Because of its expense, some baby boomers balk at purchasing long-term care insurance. "I ask them 'Would you quit paying your homeowners insurance or automobile insurance?'" says Mannen. "You have to protect your assets and let the insurance company take the risk."

Several factors such as age and health go into the pricing of a long-term care insurance policy. "Each individual has to determine what is appropriate for his situation," says Cram. Planning for the future may not be fun, but it beats having a retirement garden of only weeds.