DON'T BE "RETIRING" WHEN PLANNING FOR RETIREMENT

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"In delay there lies no plenty."
- William Shakespeare

As you read this sentence, a moment passed you by. As you read this sentence, you missed an opportunity. As you read this sentence, you are closer to retirement. What did you do with the moments and opportunities before you sat down to read this article—and what will you do after?

The preceding is not meant to ring the knell of doom. Instead, let it be your "wake-up call" to stop putting off your retirement planning or, if you have already begun, neglecting to remain vigilant in adjusting your plan according to where you are on the 'retirement continuum.'

Babies Go "Boom"

Over the next five years,13.8 million 'babyboomers' will be exploding onto the retirement scene.[1] In fact, in 2006, the first wave of 'boomers' began turning sixty. For them—and, perhaps, you—retirement is rapidly approaching. At that point, thinking about retirement will become living it. The question is, how much will they—or you—have to live on?

The reality is that many people aren't prepared, regardless of their asset level. And preparation is crucial.

The reasons for a lack of preparedness are many. Some put the blame on the generation itself, that it was freer to spend and less eager to save. Others point out that, during the prime earning and saving periods of their lives, the economy fluctuated too wildly and jobs gained and lost too readily for them to really be able to make any sort of solid commitment to saving.

Battles still wage in the government, among lobbyists, physicians and others over health insurance (who pays what, to whom, how much, etc.) and it is the well-being of 'boomers' that is in the balance. According to the most recent Census Bureau data (2005), private health insurance subscriptions dipped to an all-time low of 67% because of rising costs to both employers and employees, while employment-based health insurance declined by 0.3%.[2]

As companies continue to reduce benefits and insurance, an influx of less than (and, potentially, non-insured) 'boomer' retirees is becoming a grim reality that will have a considerable impact on an already taxed healthcare system. That, combined with their ripple effect on the economy in general, and various aspects of the support infrastructure needed to maintain them, and you can see that living in retirement presents a whole different set of financial questions than when preparing for it.

Will you be ready to change your focus from retirement savings to managing and preserving your savings? Perhaps you need to consider doing more than that—perhaps you should think about building income while in retirement. Another important thought to consider is your legacy—how will you pass on your assets? Think about these questions as you read further and remember to speak with your Financial Consultant to fully explore your retirement before you begin living it.

Asset Allocation + Income Generation = Accumulation

With life expectancies increasing—for couples reaching age 65 there is nearly a 50% chance that at least one of them (and possibly both of them) will still be alive at age 90—there is a growing risk of outliving your assets.[3]

There are two things to remember to help you be better prepared: asset allocation and income generation.

Common financial wisdom dictates that, as you grow older, your investment mix should change from more to less aggressive, towards a more conservative blend of investments to help lower portfolio volatility in advance of generating retirement income. Once in retirement, the key asset allocation question that needs to be answered is, "How much money can I spend each year so as to not outlive my assets?"

That is where income generation comes into play. One strategy to generating retirement income involves analyzing asset allocation from a whole new perspective, from accumulation to management and income. One consideration is an allocation between investment vehicles (e.g. stocks, bonds, mutual

funds, etc.) and income generating vehicles (e.g. immediate fixed annuities, variable annuities with living benefits, etc.). This way, you can help protect the retirement income you need to enjoy your well-earned "time-off," while allowing for potential asset growth in anticipation of a longer life, inflation, unforeseen expenses, or to leave a legacy to your heirs.

Many studies have shown that a portfolio with an asset allocation leaning more towards equities can generate a maximum income of about 4% annually, providing a helpful supplement. However, a sudden market downturn immediately after retirement can make it difficult to stick with that equity allocation. For this reason, it is essential, as always, for investors to create a balanced portfolio that addresses both their tolerance for risk and desire to generate income.

The 'Retirement Continuum'

Retirement planning starts as early as when you begin working and, as we have seen above, continues even after you retire. As with any financial plan, it needs to be constantly monitored to ensure that it is in line with your current and future needs. Regardless of when you begin or where below, your Financial Consultant can be your greatest planning asset when you are trying to grow and protect your retirement.

Ages 40 to 50

As life's responsibilities tug at you—career, family, perhaps putting children through school or assisting your parents—it is still important to remember to find the time to plan and the money to save for your retirement. Just as when you were in your 20s and 30s, you should do your best to continue contributing the maximums to your retirement programs, both company-sponsored and any IRAs you may have.

This is when you should consider reallocating your investments, beginning a gradual movement away from more risk-taking to more risk-averse vehicles, based upon your risk tolerance. This can also be a good time, if you haven't done so already, to meet with an estate planning professional and begin thinking about protecting your assets for your family and providing for your own future needs, such as insurance, healthcare, etc.

Ages 50 to Retirement

Financial security is now paramount: your investments need to reflect the importance of asset preservation and reduced risk, while still providing for a reasonable amount of capital appreciation. You should work with your Financial Consultant to refine your post-retirement plan and to ensure that your investments continue to provide the maximum return long into your retirement. Continue contributing to your IRAs and remember that recent changes in tax law now allow investors aged 50 and older to make additional "catch-up" contributions of up to $5000.[4]

This is also the time to think about long-term healthcare insurance to help protect your assets in the event that you require healthcare assistance that can, over time, deplete your assets, as well as the legacy you want to leave to your heirs. Consider that, in 2006, the national average cost of a semi-private room in a nursing home was $66,795 annually.[5] Long-term care covers an enormous range of services, medical and non-medical, in-home or facilities-based. Related insurance can help not only protect your assets, but ensure that you receive the level of treatment and attention you deserve to maintain your quality of life.

Retirement

Now it is time to enjoy the fruits of your labor—but it is equally important to have fruit to enjoy through out your retirement. During these years, it is crucial to continue monitoring your asset allocation to maintain the balance between generation and accumulation. As when before you retired, the question you ultimately need to ask is, "What is my risk tolerance?" For the more risk-averse, investing in such vehicles as intermediate-term bonds, bond funds, CDs and money market funds can potentially provide income while offering less exposure to risk. As you move further up the risk/return ladder, you can include stocks and bonds in varying degrees until you reach your risk level.

1. Source: SRI Consulting Business Intelligence, Menlo Park, CA, 2002.

2. U.S.Census Bureau (August 29, 2006). *Income Climbs, Poverty Stabilizes, Uninsured Rate Increases.*

3. LIMRA International (2007). *Public Misperceptions about Retirement Security— Closing the Gaps.*

4.The catch-up limit for 401(k)/403(b)/457/SAR-SEPs is $5,000, $2,500 for Simple IRAs and $1,000 for Traditional/Roth IRAs. Amounts will be adjusted for inflation in 2007 and after.

5. The MetLife Mature Market Institute (September2006). *The MetLife Market Survey of Nursing Home and Home Care Costs.*

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