Welcome to InFRE's March, 2015 Issue of Retirement Insight and Trends

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Retirement InSight and Trends is the quarterly newsletter for the International Foundation for Retirement Education's Certified Retirement Counselors® (CRC®s) to help retirement professionals stay abreast of what's happening in the field of retirement readiness, counseling, planning and income management. Find out more about the CRC® and InFRE here.

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March, 2015 InFRE Update: Welcome Our New Board of Standards and Standing Committee Members

by Kevin Seibert, CFP®, CEBS, CRC®, Managing Director, InFRE

The Board of Standards and Policy Development (BOS), the policy-making and oversight body of Certified Retirement Counselor® (CRC®) Certification, recently chose two individuals to serve on the BOS beginning in January, 2015. We extend our congratulations and sincere thanks to Sherry Keegan, CRC®, Keegan Wealth Management & Retirement Strategies, LLC, and Lance Palmer, Ph.D., CFP®, CPA, MBA, Associate Professor, University of Georgia for agreeing to serve on the Board of Standards.

Here is the complete list of the Board of Standards members today:

Barbara Healy, CFP®, CRC®, CFS, ShMC, AAMS, MCRS, SST Benefits Consulting – Chairperson
Claudia Freeman, CFP® (US & Canada), CRC®, MBA, Keats, Connelly and Associates, Inc.
Becky Frasher, CRC®, STRS Ohio
Ron Nichols, Great West Retirement Services
Raymond Kirk, Public Member, Retired – Benefits Officer Training & Development Group, Office of Personnel Management
Curtis Morrow, CFP®, ChFC, CRC®, Gardner and White
Donna Richards, CRC®, CISP, MBA, First National Bank of Hutchinson
Sherry Keegan, CRC®, Keegan Wealth Management & Retirement Strategies, LLC,
Lance Palmer, Ph.D., CFP®, CPA, MBA, Associate Professor, University of Georgia

What Does the Board of Standards do for InFRE and CRC Certificants?

The purpose of the BOS is to independently establish the governing rules and regulations related to the CRC® program, make determinations regarding eligibility and all essential certification decisions, and provide mediation and interpretations for the program as needed by staff and other volunteer groups.

BOS members serve a three-year term and committee members serve a one year term. Each year, only two to four new positions are available. To complement the experience of the existing Board and Subcommittee members, qualified candidates need to possess the competencies to be an effective, strategically-focused contributor and to successfully fulfill the roles and responsibilities of a BOS member. InFRE seeks qualified candidates who are leaders in retirement counseling and have a passion for how CRC® professionals can benefit the public.

The InFRE BOS benefits greatly from the contributions of professionals and other stakeholders, and there are many opportunities for CRC® Certificants to become involved with furthering the work of InFRE in meaningful and rewarding ways.

Examination Subcommittee: With guidance from InFRE's testing agency, the Exam Committee develops the certification exam and monitors its performance. Specifically, the Exam Committee is responsible for exam form pass point recommendations for all exam forms, and exam reporting format to candidates.

Recertification Subcommittee: The Recertification Committee develops the recertification system and monitors its performance, including quality assurance through audits of Certificants' applications.

Appeals Subcommittee: The Appeals Committee considers and makes determinations on appeals made by candidates or Certificants.

Disciplinary Subcommittee: The Disciplinary Committee is responsible for enforcing and administering the disciplinary procedures established by the BOS.

Practice Analysis Subcommittee: Under guidance from InFRE's testing agency, the Practice Analysis Committee develops and conducts a study of practicing Certificants to identify the tasks necessary and uses the results of the study to make recommendations for updating the exam content outline.

What's Trending in the Field of Aging: Connecting the Dots with Financial Services

retirement-insight.com/whats-trending-field-aging-connecting-dots-financial-services/

By Sandra Timmermann, Ed.D, Gerontologist, Integrating Aging and Business Strategies

Sandra Timmermann, EdD – Gerontologist, Successful Aging in Retirement Expert

Editor's note:
Sandy and I met about ten years ago while serving on a Society of Actuaries' Post Retirement and Needs Committee project. She directed the MetLife Mature Market Institute for 17 years, and has unique insights into both the gerontology and financial aspects of meeting the needs of mature Americans.

This presentation was delivered in live webinar format in 2014. Sandy's comments have been edited for clarity and length.

You can view a **YouTube** brief of the original presentation here.

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The Today Show recently interviewed George Bush senior and he once again was going to skydive up in Maine for his 90th birthday. So that certainly shows something very positive. I never could do that, even in my 20s, so I have to be really admiring of this incredible man.

But there's really something a little deeper going on here. The field of aging has, for good reason, focused on frail elders and people who really need assistance, and what that has done is to create this view that anybody over 60 is really sort of washed up and finished for their life, and yet here you have some extremely vital boomers and people who are older than boomers who still want to be in the game, who want to give back, who have good health, they have education, and they have money.

Trend #1: A New Way of Looking at Aging

So what is happening now is the creation of a new life stage. This is a way to get you to think a little bit differently about the population that you work with.

Say in 1900, you had three life stages; childhood, adulthood, and old age. And then somewhere around 1930, academics and adult development specialists thought, "Gee, a 16-year-old, they're a lot different from a 6-year-old. Maybe there's a new field of study," and they created this period of time called adolescence. So then you had childhood, adolescence, adulthood, and old age. Today, I think we need to do something similar for the people who are in their late 50s, 60s, and into their 70s, and that's create a new discipline, a new way of looking at the life stages. So you'd have childhood, adolescence, adulthood, and then, I'm calling it adulthood two. It could be the encore years. I know some people in financial services talk about the go go, slow go, and no go years, but I think this concept is quite interesting in that it is gaining some traction with writers and some thinkers.

One exemplary organization that is making an impact is a group called encore.org. That's actually their name, but they are not just online. They exist as an organization. They're founded by a man by the name of Mark Friedman who wrote this book and has done a lot of work for the last 15 years to try to get us to look at this period of time as a

new stage of life. He calls it, “The big shift,” this particular movement. You could say ‘Shift happens’ when you transition into retirement.” Two-thirds of the boomers indicated in the research that they would like to do something a little different, help give back to society if they could. But those opportunities really don’t exist, and what Encore is trying to do is to open that up.

Businesses created by older people grew by 60 percent between 1996 and 2012. In fact, last year businesses started by those 55 to 64 accounted for nearly ¼ of all new businesses. As you think about your clients who want to stay in the game, if they’ve left a job they might not be able to go back into the same type of work, and may not want to. Starting a business could be an opportunity for them. It is trending. I had to mention this because there’s so much focus on life planning these days in my field, and I always feel they’re missing the financial piece, but boomers were always the ones who were willing to sit around in a discussion group and talk about their feelings and what they saw in their life. Fast forward this to retirement now, all these ideas are in play as they try to figure out what’s next – caregiving, work, re-evaluating what they want to do, what’s going to make them want to get up in the morning, where they’re going to live, what their health status is and going to be.

The big takeaway here is to have you all think about the life span differently, and gain a better understanding of the psychology of the encore years. I know sometimes we say, “Oh, congratulations, you’re retiring,” and people are happy to retire in one way, but you have to understand there’s also some loss associated with that. You’ve lost a structure perhaps, and you’re also face to face with the realization that your time left is a lot shorter than it was before now that you’re not in a full time job.

But you have so much to give, and I think by dividing it up into that new life stage, it does give you a new perspective. I think also if you look at the work trajectory, this is an opportunity to get your younger clients, in their 40s and 50s, to think about how they’re going to extend their work life. You’ve seen all those very grim figures about how long we’re going to have to work. I think EBRI, the Employee Benefit Research Institute, came up with some analysis and said we have to work until we’re 84, which sounds a little bit long to me, even if we do want to stay involved. So if you could get your clients to think about switching careers rather than hanging on, which is what a lot of people do now in their current job, it might be something that is invigorating and also more realistic. The life planning organizations are growing in my field. I know in financial planning there always was the Kinder Institute of Life Planning, but AARP has done market research and their major initiative is called Life Reimagined.

Trend #2: Clients Want to Stay in Their Own Home, or in a Home

Maybe they’re going to move, but they don’t want to go to a nursing home, a dreaded nursing home; they don’t want to go to assisted living. It’s not as much of a popular choice, particularly for boomers, and we know that most people do want to age in their own home.

The problem is, it hasn’t always been so easy to do that when you begin to get frail, because there are not support mechanisms available. But now both the private sector and the government are moving in the direction of home based community care rather than sending people to an institution when they are not able to really function too well on their own. I think the government might see it as more humane, but also a possible way to save money, and there’s certainly a lot of people who are in the middle, our middle market, who are not eligible for most government benefits but who want to stay home too. This opens up a lot of opportunities for entrepreneurs. I believe in continuing care retirement communities for social reasons and other reasons, and this may work for some, where you go from your general community to perhaps an active adult community, 55 plus, with limited services, and then if you do need more care, you move on to continuing care retirement communities, assisted living, or nursing homes.

A newer idea is aging in community, not as a continuum, but as a circle, and these are elements of the mature market institute worked with Stanford University on indicators of a good community where you can age in place, and these are things that seem very obvious but with all of these together, the social, the structure, the healthcare, safety, and support, it makes it more possible, at least theoretically. The village model, and there are about 200 of these around the country now, is like a virtual assisted living or continuing care retirement community without walls.

People stay in their homes, they start out healthy, and then they can expect services as they need more assistance. It is membership based, so people pay a fee. They then can call a concierge and it's staffed, but also volunteers play a big part in this. The people who are in the village are able to find out about aging services, and connecting with them. They're also able to get a list of vetted private providers, including financial service professionals, reverse mortgage professionals, home remodelers, and geriatric care managers.

Transportation is not only the big problem in the suburbs, but anywhere. Once you stop driving, you're pretty much stuck in your house unless you pay for services or you call on your children or drive when you shouldn't. It is a dilemma for many communities. One model is based on banking volunteer hours. So what happens is that people who don't want to drive anymore give their car, and they get, in exchange, hours of driving back. Volunteers are drivers, and they can bank hours for themselves later on or for perhaps parents if they're children of adult parents who live in Florida and they live in New York, they could do the driving up north and the credits would go to the parents themselves. There are 25 of these organizations.

Trend #3: Increased Use of and Comfort with Technology

Each generation is more comfortable than the previous with technology. As caregivers, one way to keep your parent healthy and know what's happening is to consider some of the technology that is being set up for the home, such as those lifeline devices that you can press if you've fallen down, or you aren't feeling very well; makes it easier because then someone can trigger off an emergency system and get help right away. Boomers are going to be very up for this. I thought the cost figures were interesting. They're willing to pay for the technology so they can stay home.

There's also a big influx of sites, websites, and programs to help people keep their brain fit. It's like the next frontier for physical fitness, and I think it's a really valid point, because neurons do continue to grow if you keep your brain stimulated. Perhaps the hope is that people can avoid Alzheimer's and dementia. That has not been proven, but there may be some evidence that you could delay the onset.

We all know there are a lot of financial ramifications around caregiving. Some studies have shown it is $5,000 a year that a caregiver spends out of pocket if her parents are living somewhere else or severely impaired. Buying supplies, trying to figure out financing for your mom and dad, deciding whether to leave the work force. Maybe you really shouldn't because if you do you're going to have a hard time getting back into it perhaps, and then the other thing is you've lost opportunities to accumulate wealth. Take a look at some of the caregiving sites, some places where families can get together and communicate to each other, they have their own online box, like a caregiving box. It's something your clients may be very interested in and you might learn a few things about what is available.

Don't underestimate your clients' ability to use technology, and be willing to help them if needed. The caregivers are a prime market, too, on home technology and finances for parents as they are faced with their own financial situation for their own money that they might spend out of pocket as well as trying to look after their own parents' finances.

Trend #4: The Changing American Family

The typical family isn't typical anymore, our whole vision of mom and dad with two kids at home, and the other factor that is certainly changing is the growth of minority populations. I believe that the Caucasian population will actually be a minority in California by the year 2020 or 2025. So for financial services, it's turning into kind of a different ball game.

Married couples with children under the age of 18: In 1960, that represented 45 percent, and today it represents 20 percent. So it is quite a different approach when you have all these other family types to deal with, and yet I believe that so many people in financial services still go after the couple with children at home. Granted, they do have the resources perhaps and some needs, but you've got these other types that offer opportunities and also need services.

The growth of people who live alone has increased since 1960, and that has a lot to do with aging, and it also has a lot to do with females living alone in their later years who, or even in their 40s, 50s, 60s, who need some assistance.

Niche retirement communities such as one designed specifically for Asians, people who are perhaps parents of some of your clients who don't speak English very well, and even if they do speak English they are interested in the cultural components of retirement. Again, like-minded people, where the food might be different and the way of retirement living would be different as well.

So many of the adult children have been struggling, and a way to help the adult child is to for grandparents to help the grandchild with some basic needs, even clothing. The expenditures on clothing have gone way up. But some researchers say this is a $50 billion a year market, and advice around what they should be doing, should it be putting the money in a college fund, should they help with down payments, and how much should they be spending on their grandchildren when they have their own retirement to worry about? Those are things to ask your clients, because it is really a growing market.

The aging market is a woman's market. There are some really good resources out there. Wiserwoman.org, which is an organization called Women's Institute for Secure Retirement has a lot of resources. But many companies have zeroed in on the women's market, what is it and how to really help someone think about aging, because so many women will be aging alone.

Trend #5: Changing Viewpoints around Retirement Finances in the Field of Aging

Many professionals in the field of aging are in their 50s ready to think about retirement and not knowing much about it at all. These are primarily people from social work, from other sorts of services where they wouldn't have a lot of financial background, and they're probably mainly in the mass affluent market, though some people have worked in the government and still have defined benefit plans.

They really are looking for help and don't know where to go. There's an opportunity for financial service professionals to actually help this group. The other reason I believe it's important, is because these people are the influencers in their communities, and they are subtly persuading or influencing the seniors who they work with about the private sector and insurance companies, and banking. So changing their viewpoint of the services that financial services can provide is a very important goal in the over all, and it actually will help individuals as well.

In 1965, Congress passed the Elder Americans Act, and that is an act that authorized a number of the basic aging organizations; the Area Offices on Aging – there's one in every community in the United States, by county or by regions – and then a whole range of local service providers, like senior center providers, providers who take care of meals on wheels, and then of course consumers. So getting to know this network could be very helpful for a whole range of reasons.

The other thing that's happening, and perhaps because there is so much interest in aging in place, and also because government services are stretched and really focused primarily on low-income people: service providers are springing up in every community. I had mentioned the National Aging in Place Council as a group that is trying to pull this together. If you think about it, you have your professional services such as elderly attorneys, funeral homes, banks, financial services, then you've got home and community services that are private. They could be everything from specialized moving services, there are a number of these that are geared specifically to senior moving, home remodeling, that's really big if people want to stay in their own home, and of course the other services, pharmacies, geriatric care management. It's worth a look at these to get to know what's out there, first to help your clients who want to know what they need to do for themselves or their aging parents, or for referrals for your business, and I think that has been working for people.

The elephant in the room for professionals in the aging field is long-term care. Like others, they haven't planned sufficiently for what they are going to do about it. They really want knowledge about long-term care insurance,

reverse mortgages, and they want to know, what about an annuity? When I was at MetLife, we did some research on what are boomers' biggest concerns, and the biggest one turned out to be providing for long-term care for myself, for my spouse, or my partner. So there may not be an easy answer right now, but it is something that is on people's minds and there are some product sets in addition to long-term care insurance that may somehow help, and at least in the planning, get people to think about it.

The aging field is generally not familiar with products. Their orientation is to government services. They could be a little negative, yet they're the gatekeepers and influencers, and so it would be a really good idea to get to know the network in your community and do seminars with it and change impressions and bring business.

In Sum

- New aging in place options and how to pay for them are front and center for a lot of people, particularly boomers and boomers for their parents.
- I'm for careers and retooling. Really we should be planning for that in our 40s and our 50s and getting our clients to think about a whole career trajectory that's different than it is now.
- The technology opportunity is there and it'll grow and it will open up opportunities for the middle market.
- The family types that we've seen, the changes in the family; we have to change our practices to parallel that, so we need to figure out how to do it.
- Holistic planning, the life planning, is gaining traction with boomers, and they're wondering what's next.

These are all the elements that someone will think about as they make this transition from work to this brave new world of retirement, however we want to define it. For all of these elements, there are financial ramifications, and things that financial advisors can do to really help people have financial security and also lead a more fulfilling life.

About the author:

Sandra Timmermann, EdD – Gerontologist, Successful Aging in Retirement Expert

Sandra Timmermann is a Doctor of Education and a nationally-recognized gerontologist with a focus on aging and its relation to business. Sandy was the founder and Executive Director of the MetLife Mature Market Institute, which was disbanded in June 2013. The Institute was the company's center of expertise, strategy, and thought leadership on the 50+ market, providing customer insights, content development, research, education, sales support, and visibility for MetLife and its business partners. Prior to joining MetLife, Sandy held senior staff positions with several national aging organizations including the American Society on Aging, AARP and SeniorNet.

Sandy's areas of expertise are focused on global demographic changes and on retirement life stage issues on subjects ranging from retirement finances, family needs and intergenerational relationships, housing and aging in place, employment, health and long-term care, and other transitional topics. She writes for professional publications and is the Financial Gerontology columnist for the Journal of Financial Service Professionals. She is a frequent speaker on aging issues at national conferences and seminars, and has been interviewed by major media including the Wall Street Journal, the New York Times, USA Today, MarketWatch, Bloomberg and many others.

She has served in leadership capacities with a number of national organizations including the Board of Directors of the American Society on Aging, the Chair of the Board of Directors of the National Alliance for Caregiving and the Chair of the Business Forum on Aging. Sandy was a delegate to the 2005 White House Conference on Aging, and holds the ***Gloria Cavanaugh Award for Excellence in Training and Education, which*** *is presented to individuals who have demonstrated continued excellence in training and education in the field of aging.*

Retirement Speakers Bureau

What Color is Your Parachute? for Retirement: Planning for Prosperity, Health and Happiness

retirement-insight.com/color-parachute-retirement-planning-prosperity-health-happiness/

By John E. Nelson, Purposeful Retirement Advocate, Author & Coach

John E. Nelson – Purposeful Retirement Advocate, Author & Coach

Editor's note:
When I graduated from college with a finance degree – a LONG time ago – I purchased the book "What Color is Your Parachute?" to help me determine which area of finance I wanted to pursue. I loved the practicality of the book and bought copies to pass out to friends and families over the years. It is updated regularly and Time Magazine has rated it as one of the 100 best nonfiction books of all time. As I became involved in the retirement industry, it occurred to me that a version of this book geared toward people preparing for retirement would be a tremendous service to those who understand the importance of retiring "to" something in addition to retiring "from" a career or job. Eventually I called the author, Richard Bolles, and found out that John was working with him to publish the work that you'll learn more about today.

I first met John in the mid-2000s, in my role as Director of Education and Research for the International Foundation for Retirement Education, otherwise known as InFRE, which confers the Certified Ret Counselor (CRC) certification. John was instrumental in shaping the direction of a Retirement Readiness Profile that InFRE created for the federal government for use by federal agencies, public sector and private sector employers, and consumers to determine an individual's retirement preparedness. I know you will find his comments insightful, thought-provoking, and highly applicable for use with clients or employees who are approaching retirement.

This presentation was delivered in live webinar format in 2014. John's comments have been edited for clarity and length.

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I think it really is a privilege and an honor to help people prepare for the next stage of life. For those of us who are in retirement education in organizations and other places, it's a little bit like being at a high school or a university where young people are deciding what the next stage of their life will be about and they're choosing life direction.

As people approach and plan for their life in retirement, it is one of those few times in an entire lifetime where we can go off in new directions and really recreate ourselves or get closer to the authentic self that we have been. The big distinction of course is that retirement is a transition, unlike high school or even college where it's just a few years; we literally plan decades and get ready for retirement over a long span. It is one of life's biggest transitions.

People say *What Color is Your Parachute? For Retirement* is somewhat like financial planning, but it's more like career planning. It's more like thinking in a full way about using your skills, your strengths, the people you want to be interacting with, the greater purpose that you're serving. But all those questions we answer about our careers really are the same questions that we have the opportunity to address again for our retirement. That's why I teamed up with Dick Bolles to write this book because from a philosophical perspective and a life stage perspective, in many

ways your retirement is like your career.

Now, it used to be simpler. You used to say well, I need to save enough money for retirement, and once I get there, what do I do? What's it really about? The answer of course was that it was based on leisure and the idea was that when you retire, you get a hobby and that will take care of things.

For most of us though, that hobby wasn't really enough. As I worked in the retirement planning field for about 20 years on the financial side, drafting plan documents, designing plan benefit formulas, doing discrimination testing, managing portfolios, government forms, all the stuff that is on the financial preparation side, I saw people prepare financially and get to retirement age and go off into their lives.

Some of them had happy, fulfilling, engaged lives, and some of them frankly, were miserable. There was nothing in retirement that was as fun or as engaging or as meaningful as they had hoped there would be. I thought, what's the difference? How can we help people prepare better not just financially, but prepare for this stage of life?

So I developed a few questions to answer about retirement, and I realized that life had changed so much, frankly, that we needed to change what we were doing about preparing for retirement. We use this word, but we don't necessarily have a full understanding of what it means. What's a good retirement, and if we're going to help people prepare, what is it that people really are looking for? What would the curriculum be – what do people study to have a good life?

I quit my job and enrolled in a PhD program at Wisconsin and went off to answer those questions. Initially it seemed important that I would just, you know study things where I was located, and so I did study in Wisconsin. But pretty quickly I realized that I needed to take a broader view. Over the next year or so I traveled to 16 states around the country, I went to conferences; I went to the employers that I thought were doing the absolute best job in answering these questions and helping their people plan for retirement. I met with the experts in different fields who were doing research that I thought would be important too. I met with economists and psychologists and medical and wellness people so that we could get a holistic view of what it is that people are planning to transition to. In the course of my travels and the PhD program I ended up answering these questions. That's what we'll do today – is answer these questions.

Question One: What is Retirement?

In the old fashioned view that was pretty easy. The whole point of retirement was to think about just not having to do anything. What I discovered of course in talking with baby boomers and other people is that for a lot of them that wasn't the view that they had at all. In fact it was almost diametrically opposed to this bold view. Some people were in between, they looked forward to freedom and leisure, and other people in fact were going to continue working until who knows when.

I looked back historically and said well, retirement isn't that old anyway. We haven't been retiring for all of human history. What does the human lifespan look like? What have people done with their lives historically? Humans have been around for a long time and retirement has not.

Here's an illustration from the 1840s, the Life and Age of Man.

This picture takes the human lifespan by decades. It starts at zero, shows the peak of life is 50, and then we have the old age – actually age 100 there on the far right.

Now we know that the average age that people are living to has been increasing, but the maximum human lifespan has always been long. Even in ancient times there were people who did live to be a hundred through the action of good genes and a favorable environment.

One of the reasons that a lot of people don't like to think about retirement is retirement is in their mind linked to aging. Of course aging has never had a really positive view in most people's eyes and you see all the way back to the 1840s that there's some themes coming through here. What some people say is well, it's this health and vitality, you know that's growing. We're young, strong, vital, energetic, healthy on the left. And then you become, you know kind of decrepit and, you know lower energy and aches and pains and even disability on the right.

Some people say this shows social prominence and importance on the left, you know we become an important member of our families and society, and then in that later point it starts kind of going downhill; we're more withdrawn, we're less prominent, we're less popular – we have less social authority, less social power. That might well be the case.

This could also be a financial graph. It could say that our economic worth is increasing, our earning power is increasing, our stash of money, or this in Europe could have been how many cattle or how many sheep we own. Who knows? At some point it starts going the other way.

What's the point of view of this? An external point of view. This is society's view of the life course, this peaking and falling. It's not the internal experience that each of us can create. When we think about internal experience, what this idea of growth and age does not show are things like a sense of internal fulfillment. This doesn't indicate anything about the fulfillment that's available to the people as they age. It doesn't indicate anything about a sense of meaning in life. Sometimes in our youth we're confused about life and why we're here, and in fact in retirement or older age can be the opportunity for us finally to get some clarity about our own values, our own purpose, why we've been here. The richness and deepness of relationships is not shown here. We might have a smaller social circle as we age, but the importance and depth of those relationships may be richer – again, if we work on them. Where along this whole idea of the life course is retirement? Where on here do you see retirement? Nowhere.

The most important thing to take away from this is that for all of human history changes in life stages have been gradual, that we have had gradual transitions in life from one age and stage to the next. The gradual nature of that is kind of like the changes in nature: Spring leads to summer, leads to fall, leads to winter, and it's even though maybe marked on the calendar as a certain day. The truth is, it's a gradual change.

So what changed all this? Henry Ford. Now Henry did not invent retirement, but Henry really created the environment within which retirement was created. We have this original idea around a hundred years ago of going from that gradual life change to these abrupt changes. Instead of children learning at home at their parents' knee on the farm, in weaving, horseshoeing, fishing and whatever those trades were as apprentices, we put them in school. That was a good thing. But as a society we at that point made a sharp division between the world of education, sending off kids to school, and the world of work, putting people largely in factories.

Instead of a gradual transition from youth and learning into work and productivity, we made that very stark division between school and work. It's really abrupt; a lot of kids don't handle it well. You know, they're successful in education, but then they're not as successful in the world of work.

We then created this sharp division between working and retirement, and the Social Security Act of 1935 was probably the most significant aspect of that transition. So in the same way that we created schools and then the workplace, we also created the withdrawal from the industrial workplace. People were happy to do that because a hundred years ago work was dirty, nasty, dangerous business – foundries and machine shops and agricultural working too. It's really tough hard work. Creating retirement at that time was a welcome relief. But it wasn't that long ago.

As a society when we created these divisions, we created them each with a purpose. Now everybody can do everything. But the truth is in education the focus is on development – that is you're getting yourself ready for something next – you're developing to be better. Then we go into productivity, it's "get her done," right? We're productivity machines. Jobs, relationships, kids, mortgages – productivity all day, all night, we get things done.

Then retirement was created purely as leisure, and that's because people by then were pretty physically worn out from this nasty dangerous work; as worn out cogs of the industrial machine, to use one metaphor. They weren't good for much so they were put out to pasture.

As a society we created this and we also funded it through private pensions, public pensions, and the Social Security system. From an economic model we were supporting public education for education and environment – and development. We were supporting a retirement system so that this would all work.

The thing that messed it all up is that people didn't die on schedule. Medicine got so good that it kept us alive longer than anybody anticipated. It threw the funding off for what to do about funding retirement as a society and as individuals.

Question Two: What do people do in retirement?

When the ideal retirement originally was pure leisure for five or ten years that made sense, but if people have the potential, especially public employees or people who stay with a single employer like a corporation – people who really stick to it and work somewhere for 30 years and save up a good amount of money, what do they do when they might have a 20 or 30 year retirement? Is leisure enough?

People who were graduating from work into retirement realized that it was not enough and they started breaking rules. This is what I discovered ten years ago as I went around the country interviewing people, learning about people's retirement lifestyles and goals and dreams, is that we started mixing up the boxes.

We had people retiring and saying well, you know, it would make no sense to develop myself or go back to school formally or informally if I weren't going to be around a long time. But if I'd like to keep learning, or I'd like to keep working and being productive, and of course I would like some leisure too. Most of the people have at least a vague idea of being able to mix up these different life stage activities once they're freed from regular work.

Retirement began at a single point; on Friday they were a worker, on Monday they were a retiree. That meant income shifted completely when they did that. The emphasis then was on financial planning for the future – to have enough money. Once they got to retirement there were few decisions that they had to make. The decisions were about leading up to retirement; retirement was the finish line. Then you didn't have so many decisions to make, all the preparation was in advance.

Question Three: What's emerging in the field of retirement?

First of all, as a life stage it will be relatively long for most of us. Medicine will keep up alive longer than many of us expect. In spite of ourselves, likewise, we may arrive at retirement pretty physically healthy – we're able to do a lot of things.

That means that it's not just leisure, it's leisure and something more. Often for people now it begins intermittently; when we phase out of our primary career we may have a part time job, we might have a whole new retirement career, a full time employment in a new direction. We might have self-employment or consulting. We're skipping in and out of this idea of retirement.

That also means that income often shifts gradually, it's not just flipping the switch from earned income to retirement income, but new combinations of that. That means too that instead of just financial planning, which is absolutely essential, but it's this bigger idea of life planning.

Maybe most profoundly is that there are many more decisions to make than in the original idea, and retirement is not the finish line where decision making stops. There are many ongoing decisions to make once we get there.

Question Four: What's a Good Retirement?

If that's what the new retirement is, if that's what we see people living and wanting, what's a good retirement? Once

we get there, what is it that would make it a good life? This is a broader question.

When I consulted the experts about what would constitute a good retirement for people, the first thing we look at of course is economic wellbeing. From an economics and financial planning perspective people want wellbeing. In economics wellbeing means lifestyle, or it means the standard of living that someone can maintain.

Interestingly, if you talk to some other people and use the term wellbeing, such as doctors and medical practitioners and public health people and wellness professionals, when they use the term they mean health and wellbeing. Of course that has nothing to do with how much money you have other than being able to pay for medical care. What it really means is this health and vitality in your body. These two domains of life are connected certainly for people, but when they think about what's important they look at their own narrow area.

The third group that uses this same term – wellbeing – is the psychologist. When they talk about psychological wellbeing, what are they talking about? They mean happiness. The psychologists aren't really paying attention to whether somebody's standard of living has stayed the same or how healthy they are; they study and focus on how happy they are.

These domains are conducting real research with real humans, gathering statistical and qualitative data about what makes for a good life before retirement and after retirement. But historically these ideas of wellbeing have been independent.

The prosperity in the physical world and health in your physical body are the foundation. You need those things as a foundation then for happiness. That is, if you're sick it's hard to be happy. If you're poor it's hard to be happy. So you need the prosperity and you need the health. However, on their own they do not create happiness. You literally need to build and create happiness as a goal in itself.

Prosperity and health are necessary for, but not sufficient to create happiness. What the research has also shown us is that people by planning for and creating happiness, they stay healthier. Happy people stay healthier as they age. Prosperous people stay healthier as they age. Happy, healthy people are more likely to do better with their money, both managing their money and if they need to go earn some money in retirement, happy, healthy people are more able to get a job and earn some money. So while these things are distinct and separate and important in their own right, there's also an amazing overlap.

So what is a good retirement? Wellbeing in all three of these dimensions.

Question Five: What *don't* people want?

I we know that these universal desires are for prosperity, health and happiness, and everyone wants wellbeing and all kinds of it; what *don't* they want?

The opposite of prosperity would be poverty or economic insecurity or uncertainty. In fact when we study people in retirement one of the biggest things that we find is that people are often very unhappy when they have not just a lower standard of living, but when they have an insecure income stream. There are many studies that have explored this, but one good example would be comparing people of two similar income levels, but for one of those people it's a guaranteed income stream regardless of higher performance.

For the second group of people it is a potentially variable income stream which is subject to market fluctuations or different factors. When income level is equal, people who have a more secure income stream report being happier than the people who may have a variable stream.

When we talk about what people want, which is prosperity, maintaining their standard of living, we can also talk about what they don't want, which is a lower income level and uncertain income, insecurity of different forms, retirement risks which maybe they haven't anticipated or haven't prepared for.

What about health? What their fears usually revolve around are becoming older than they anticipated. That is feeling older, looking older, and having the habits and energy level of an older person. What they really want is youthfulness; what they fear frankly, is aging. What they fear is disability. What they fear is disease. It's this experience of not having health.

How about happiness? As it turns out most pre-retirees have a naïve idea about happiness. That is through 30 or more years of work life what we tend to do is to think that our weekends and our vacations – this unstructured time where we don't really have to anything – that that's happiness, that that's fun. I would submit and I would suggest that those weekends and those vacations are happiness, they're fun as a counterpoint – as a counterbalance to our work.

In Sum

To the extent that we enlist the whole person we're working with; that we enlist all of their dreams and hopes; that we recognize and accommodate all of their fears and concerns; to the extent that we help them fully articulate and envision this big colorful idea of what it is that their next stage of life is going to be about; the more real retirement will be for them. Then they may be more likely to do the down and dirty tasks like increasing their contribution to the retirement plan or taking another look at their investment allocation.

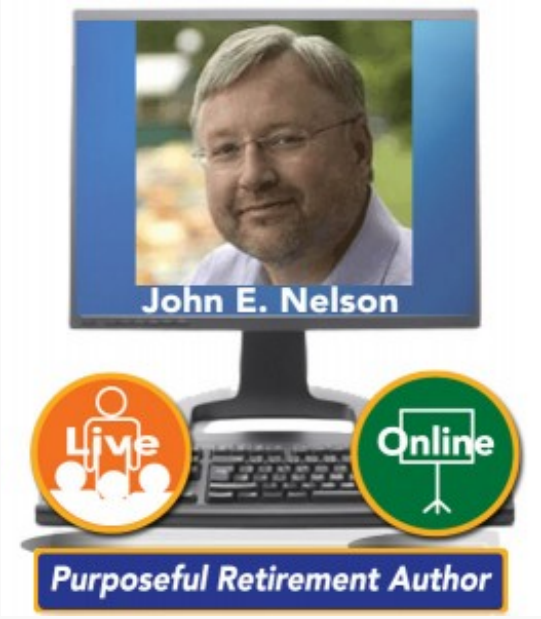
I urge you to think about the whole person, to think about their entire stage of life, to think about the dreams and concerns that they have. The more fully we can articulate that and engage them in that life planning process, the better they're going to do in the financial life process.

John E. Nelson is a career and retirement coach and speaker. He is coauthor of the best-selling and award-winning book, What Color Is Your Parachute? For Retirement.

His work integrates research from psychology, economics, medicine, and other fields. John's Well-Being model has been used by the federal government, professional associations, AARP, the United Way, FORTUNE "100 Best Companies to Work For" employers, and others.

John and his work have appeared in TIME, The Wall Street Journal, The New York Times, USA Today, Business Week, and other publications.

John taught at the University of Wisconsin while completing the coursework for a PhD. But he wrote the Parachute book instead of a dissertation — even though he knew it wouldn't count! The book is available here on Amazon.



John E. Nelson – Purposeful Retirement Advocate, Author & Coach

Retirement Speakers Bureau

Off With Your (Rules of) Thumbs!

retirement-insight.com/off-rules-thumbs/

By Michael Falk, CFA, CRC®, Focus Financial Consulting

Michael Falk, CFA, CRC® – Behavioral Finance & Investment Management Expert

Editor's note:
Below is an adaptation of the live webinar delivered by Michael Falk in 2015. Michael's comments have been edited for clarity and length.
You can view a short YouTube clip of the original presentation here.
You may also choose to take the full length course, worth 1 CRC®, CFP® and/or PACE CE.

Michael and I met in the late 1990s while we both served on the Plan Sponsor Council of America's Communication and Education Committee. Even then he didn't run with the crowd! His brain is just wired differently than the rest of us – which is why he has become an annual presenter in The Retirement Resource Center's professional development webinar series, and why he travels to South Africa, Germany and elsewhere in the world and the United States as an approved international speaker for the CFA Institute.

In the retirement planning world, we have achieved, over a number of decades, rules of thumb that are benchmarks that should help us in our planning for those we assist, such as:

1. Targeting an income replacement rate
2. A 4 percent withdrawal rule as a primary income strategy
3. Selecting asset allocation based on age
4. Use of long term care insurance.

It's time, in this day and age, as we should with all facts, re-examine. Let's see what seems to be true, and what maybe needs a little assistance.

1. "Target Income Replacement" Rate Rule of Thumb

In 2009, I coined the term, "You should immunize before optimize." When I say before you even try to optimize, it's because optimization, the attempt to put together a portfolio of assets in the most perfect risk return manner, is fiction. We're talking about the future, and the future is unknown. You can try to optimize, but the only guarantee of optimization is looking backwards.

So where do we start? Your monthly needs, not wants. Think in terms of a mortgage, an electric bill, maybe a car payment, a certain amount of money spent on food. What is your guaranteed income? If you're receiving Social Security, what does that translate into? If you're married, what does the combination translate into?

So what is your pension income? How does that translate against your monthly needs? So if your monthly needs are $2,000, and your guaranteed income is $1,500, then your gap, is $500. Of your saved assets, what are some of the better things that you might do with those in terms of investments or insurance products so that you can immunize that $500 need?

It doesn't have to be an annuity. But annuity contracts can be very beneficial here. The residual assets, if you've been a good saver and/or you've got mostly a discretionary spending life, which means your monthly needs are

very minimal, then you've got residual assets after you've covered that gap. Your residual assets can then be invested so that you can have more spending on wants not just needs; that trip to Hawaii, ensuring other risks, bequests if you want to leave money behind for children, or maybe the local library.

Let's start with replacement rates. I emphasize replacement *rates* – plural. Here's a very simplistic example done by the National Academy of Sciences. Single adult with no children, versus a child and then a second child. Take a look at the way this translates here vis-à-vis that historical 70 percent targeted replacement rate.

It's replacement rates NOT rate

	Single Adult, no children	Plus one child	Plus a second child
$50,000 income	… most is consumed, net of mortgage expenses, savings, taxes and other related costs	estimated parent's share of gross income = $34,483	…
Target 70% Replacement	$35,000 needed	$24,138 needed	…
	70% goal	48% goal	38% goal

National Academy of Sciences

FOCUS Consulting Group

5

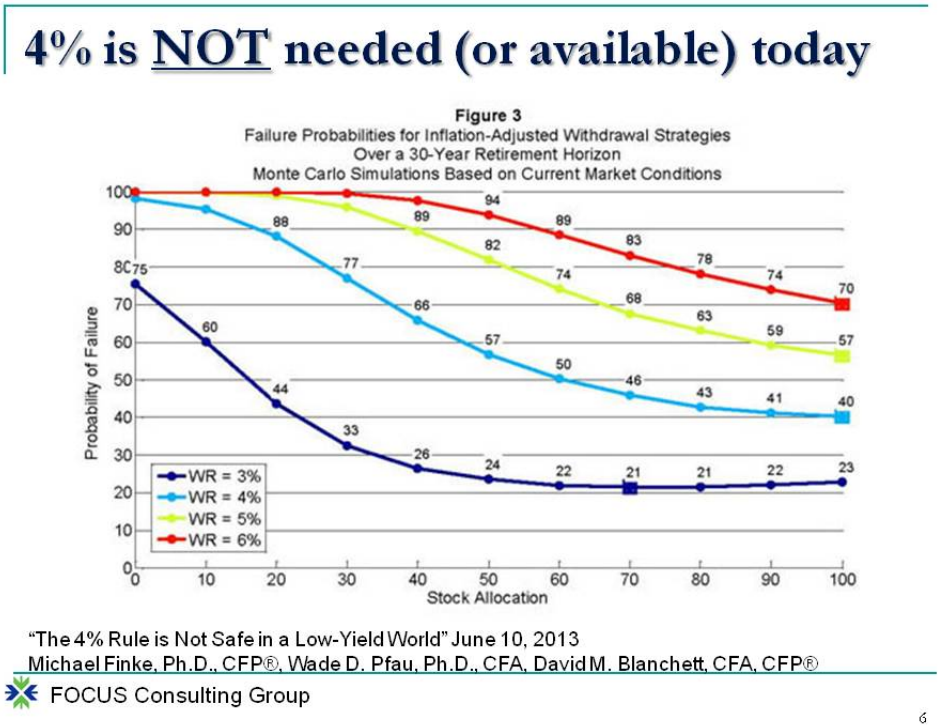
If the single person is making $50,000 a year, single adult no children, they consume the vast majority of that income net of mortgage expenses, savings, taxes, and other related costs. So it would see then that 70 percent replacement, they'd need $35,000, and that's the 70 percent goal. Now, take a look when you add a child into the mix. The parents' share of gross income drops estimated by the National Academy of Science from $50,000 to $34,000 or $35,000.

Take 70 percent of that number, and now, it's a 48 percent replacement of the $50,000 that is needed. Then add a second child. Kids cost money. You can see how it changes. I'm going to give you the ballpark because anything more specific than the ballpark is a waste of time. The old Keynes' quote, I'd rather be approximately right than precisely wrong. Fifty percent to ninety percent. The research seems to, over a large population, diverse population, indicate that replacement rates can range from 50 percent to 90 percent.

So it's the 70 percent classic plus or minus 20. Well, that is a huge difference. That huge difference factors into one's planning, one's probability of success. It's replacement rate*s*. Nobody should use a rule of thumb here. It is your life after all.

2. "4 Percent Withdrawal" Rule of Thumb

Four percent is not needed not available today. Here is a Monte Carlo simulation based on current market conditions over a 30 year horizon. The best looking curve here is that dark blue, 3% withdrawal rate.

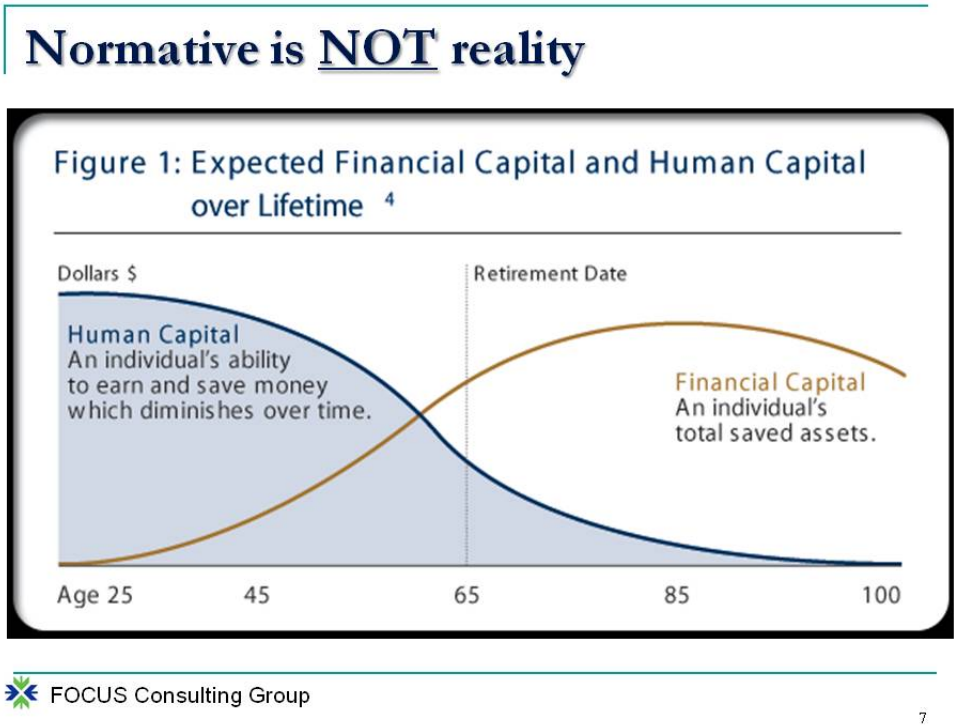


You notice that regardless of the stock allocation with a 3% withdrawal rate, once you have 40 percent of stocks or more in your portfolio allocation, you have 26 percent ranging to 23 percent probability of failure. You have a 20 to 25 percent probability of failure with a 3 percent withdrawal rate. Is that acceptable to anybody? Look at 4 percent in this day and age. This is like an accident on the side of the road. Here's the point: This is people playing with Monte Carlo modeling – they're playing with numbers.

If you immunize before you optimize, if you cover your gap, and you have now guaranteed with little to no risk all of your fixed expenses, you cannot fail but for an insurance fee. It doesn't matter how you invest your residual assets after you've immunized because your fixed expenses are guaranteed. It's not about what you can afford to withdraw each year. It's about immunization before optimization.

3. "Selecting Asset Allocation Based on Age" Rule of Thumb

Positive economics is seeing things as they are. This is where we start talking about target date programs. You can see the classic lines here, or curves, if you prefer, of how human capital is really high when you're young.



As you get older, it starts to decline. Notice, if you will, even the economists will acknowledge with their classic glass half full that, even at age 65 70, or 75, there's still human capital left that links into maybe why you shouldn't retire early. We'll come back to that. But here's the problem. This assumes that financial capital is growing.

Starting at age 25, financial capital is virtually nonexistent. As people approach retirement time, financial capital is quite a bit higher. Well, there's a fallacy here. This is assuming that the individual is saving. This is assuming that the individual is getting X percent rate of return on those saved assets. There are a lot of assumptions based in that financial capital line. Human capital also, by the way, it's not a smooth curve. Human capital has kinks; job changes, going back to school, getting more education. The human capital line isn't smooth, but this stylistic chart, what it should say to you, is if a target date fund is based upon this graphic – and by the way, they all are in some way, shape, or form – then they're assuming savings.

Let's take this to the next step just for fun. That glide path is not likely your glide path. Changing the asset allocation in a portfolio solely on the basis of a member's age is complete nonsense. There is no correlation between the age of a pension plan member and how the market behaves. This statement, whenever I have shared this with audiences and other people, makes perfect sense to them. This is coming from the Research Foundation of the CFA Institute.

Chartered Financial Analysts, these are the people who manage the money. So why is it when target date funds are primarily, if not solely, based on the age of an individual, how is it that these things have become the fiduciary "go to" investment?

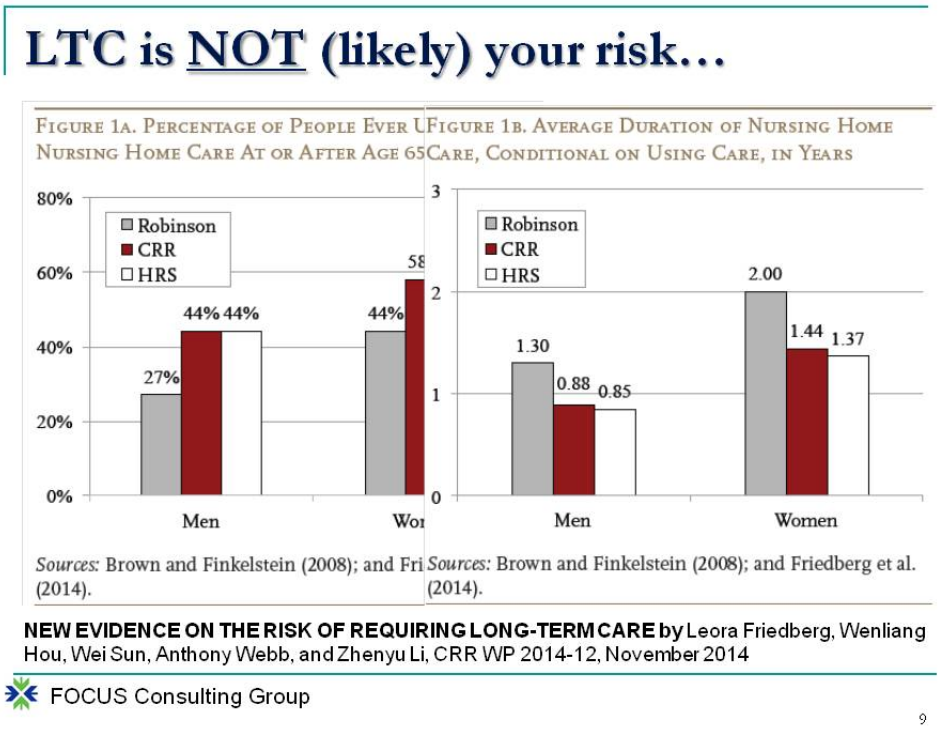
4. "Long Term Care Insurance as Way to Protect Risk" Rule of Thumb

Long term care is not likely your risk. I get a lot of questions on how I feel about long term insurance. It scares me because what I've observed over the last decade plus is fewer and fewer businesses are still in the long term care market.

I have observed premiums going up higher and higher for people who own the policies. So now, the question is we talk about what are risks for retirees. Obviously, medical, healthcare, is the single biggest risk for retirees. By the

way, when you calculate your monthly fixed costs in retirement, the averages can hide a lot of detail. We can estimate $250,000 over your lifetime out of pocket expenses. So that should go into your fixed expense bucket. You want to immunize that. But what about long term care?

Recent research done by the Center for Retirement Research identified the probability that you're going to need it. However, the equation is not simply probability. It's probability and magnitude. Was it probable that the stock market in 2008 would drop over 30 percent? Really low probability. The problem is the magnitude, if it were going to do that like we unfortunately experienced, you have to keep in mind both. If it's a low probability, but the risk is really, really high, the magnitude, then you might want to insure for it.



The Center for Retirement Research found that 44 percent of men will use a nursing home care facility at some point in their life post age 65. That's a big deal, right? Women 58 percent. It's not that you are going to need more care per se, but your longevity is still greater than men, so it increases the probability that you end up in a facility.

Now, take a look at what is the magnitude of that care; it changed when they did the more detailed research. They looked at monthly care instead of annualized care. Look at the average duration that people spent in the nursing home. Men 0.88 years, or about 10 months. Women 1.44 years; less than 18 months. So even if the nursing home facility is local to where you are, maybe a family member as an example, we've heard costs, $50,000, $60,000, $70,000 a year to get into a good facility. So the likelihood is you're going to need a facility at some point in your lifetime. However, you're not going to need it for very long.

So this begs the question: Is this a risk to you to the extent that you should buy insurance to cover it? Now, let's keep in mind, we're talking about averages. When we talk about averages, it means 50 percent of the population is at or below these statistics that you're seeing. But 50 percent is above. Have you ever taken one of those real age quizzes online? Do you smoke, do you drink, do you exercise, how much stress do you have at work, etc. What was the health of your parents?

All of a sudden, you either look older or younger than your actual birth age. This is not saying that it's changing your longevity, but it gives you a view about what your risks are. The good news is there are more and more opportunities to go buy a life insurance policy, a life insurance policy, otherwise known as an asset, with a long term

care rider. The face value acts as a debit account for long term care expenses. It may be a better way for the average person to cover the risk that they perceive they have.

Now, I say for the average person because, if you end up in a long term care facility for five years or longer, which is less than 3 to 4 percent of the population based upon surveys, an actual long term care policy would be better than that life insurance policy with the rider.

My point to you is that there is not an answer that is best for all people. We can only speak in generalities. That's part of the challenge with rules of thumb.

Tips and Takeaways for Advisors and Clients

1. Is your client debt free? If not, it may be best to delay retirement. People say wait a minute, I got a mortgage. I bought a big house when I was 50. The mortgage goes to 80. What do you suggest that we do? Sell the house. Downsize because I don't think you want to work until 80. Keep in mind the lower your debts are, those are fixed expenses in retirement. Was it a decade ago or two decades ago that when people paid off their mortgage, and they got that note, they had a note burning party? We don't have many parties anymore, do we? Educate the benefits of working longer, delaying receipt of Social Security or pension benefits.
2. By now I hope everybody has heard about age 62 versus age 70 for claiming Social Security. You end up with what we can call a 75 percent increase in your monthly benefit if you go to 70. But in addition to that, if you're still working during those years, 62 to 70, over that eight-year period, you're not liquidating money out of your portfolio to live off of, and you likely are adding to that portfolio with the additional eight years of savings. You're talking about you can have your monthly retirement income being upwards of 150 to 200 percent bigger if you wait until 70 versus 62.
3. Determine their financial goals in order to properly insure and invest the balance of the assets. Do they want to have some sort of long term care insurance, even if it's the life policy with the rider? Do they want to make bequests?
4. Identify their likely risks. This gets into the healthcare side, which we talked about briefly. Help them make their wishes known. I can't tell you how many families don't talk about finances. Do they know if their mom or dad wants to be kept plugged in, or they want to be unplugged if that's all that their life has left? Do they know who is in charge of the assets to divvy them up amongst siblings? Do you want to talk about breaking up the family? That's a good way to do it. Help them have the dialogue, have it codified in papers, healthcare, power of attorney, power of attorney of property, the will. These are not complicated, expensive things. But the clarity of the communication among family members can save a whole lot of trouble down the road.
5. And the final takeaway is for clients: Go enjoy your retirement whatever it may be.

About the Author

Michael Falk, CFA, CRC® is a consultant and partner with the Focus Consulting Group in Chicago, and a partner and chief strategist on a global macro hedge fund. Michael and I met in the 1990s, late 1990s, when we both served on the Profit Sharing/401k Council now known as the Plan Sponsor Council of America, on their Communication and Education Committee. At the time, he was the CIO, the Chief Investment Officer, for one of the first firms to provide managed accounts for 401k investors.

In his role of CIO, he was in charge of manager due diligence and asset

allocation for a multibillion dollar advisory. His background includes extensive asset allocation research and portfolio development expertise along with a multifaceted understanding of behavioral finance and retirement issues. He believes that the asset consulting perspective should acknowledge that the voice in the crowds can denigrate into madness at times, and that assets should be managed with the serenity to accept the market's realities, the courage

to pursue its opportunities, and the ongoing pursuit of wisdom to understand the difference.

Introduction to Managing Retirement Income

retirement-insight.com/introduction-managing-retirement-income/

By Kevin Seibert, CFP®, CEBS, CRC®, Managing Director, InFRE

Editor's note:
This presentation was delivered in live webinar format by Kevin in 2014. Kevin's comments have been edited for clarity and length.

*You can view a short **YouTube** clip of the original presentation here.*

You may also choose to take the **full length course**, worth 1 CRC®, CFP® and/or PACE CE.

Kevin Seibert, CFP®, CEBS, CRC®, Managing Director, InFRE

There are key questions to answer for clients, and you can also ask certain employees if that's appropriate based on whom you're working with. The key questions to ask clients and employees when creating retirement income solutions are:

1. What's different about retirement?
2. How prepared they are?
3. What do they need to think about before making decisions?
4. How can I help them convert retirement resources into income?

What's Different about Retirement?

There are lots of risks one has in the retirement distribution phase that they don't have in the accumulation phrase; however, we've narrowed it down to what we think are the four primary risks, which are:

1. Longevity – outliving your retirement resources
2. Inflation – which is always there but has a bigger impact during retirement when new money isn't coming in
3. Healthcare and long-term care
4. Investing risks.

1. Longevity risks. The average life expectancy for somebody 65 today is about age 86. We all like to use averages for planning purposes, but the problem is that 50 percent of the people are going to live beyond the average. So, today when you're thinking about how long we need to plan for retirement, I certainly think it's appropriate to plan until age 95. Younger employees and clients may even need to be thinking about living to 100 and beyond, based on some of the research being done today.

The problem with averages with planning is that it relates to groups of people. It doesn't relate to individuals in terms of their own planning. I'm talking to you today from Chicago, where the average temperature over a 365-day year is about 56° F. So, if I got dressed every day based on the average temperature, I would be really hot on some days and really cold on others. Getting that average isn't very helpful for planning purposes. So, as it relates to not only

longevity risks, but also to other planning tools and rules of thumb, averages aren't very helpful.

So, are there special concerns for women in terms of retirement planning? There's an almost one in five chance that one of a couple will get to age 95, typically being the female. Forty-two percent of women age 65 and older are widows. Eighty percent of women die single compared to 80 percent of men who die married. The poverty rate for elderly women living alone is five times that for married, older women.

Ultimately, you really need to look at this from having the perspective of three plans. The one that you would want if you were married is both of you live longer than expected. You'd have to have the plan if he dies first, which again is typically what happens, though it does not happen in every instance. In fact, both my parents' and my grandparents' case, it was that she died first. When one dies between a couple, it doesn't necessarily cut the expenses in half, as you know, so you have to look at how things are going to change both from an income and an expense perspective.

2. Inflation risk. You may have used the rule of 72 before to show how long it might take your money to double at a particular interest rate. I like to use the rule of 72 to show the impact of inflation, and how long it takes expenses to double at a particular rate of inflation. When applying the rule of 72, 72 is divided by an assumed 4 percent rate of inflation in retirement, indicating that expenses are going to double every 18 years.

For example, someone who thinks they want to retire at age 55 might be a long-term, public employee who has a pension plan. If they become eligible at 55, their expenses are only $50,000 a year and their pension by itself might provide that kind of income replacement. The problem is, however, if that pension doesn't have a COLA, it won't keep pace with their spending. Here is where their other assets have to supplement spending later on in retirement. Eighteen years later, those expenses double to $100,000 and for a young, spry 91-year old, those expenses again double 18 years later to $200,000. This is where it's important for clients and employees to see the incremental impact of inflation over a thirty-year retirement because just like compounded interest, the longer you have interest working for you, the harder it works for you. In the same way, but conversely, the longer you have inflation working against you, the harder it works against you with the compounding effects of inflation.

3. Healthcare and long-term care risk. We all know that healthcare is certainly an issue in retirement today and makes it difficult for individuals to maintain their assets if they have a particularly long-term illness. You've seen all the statistics and dollar amounts for assisted-living, home-health care. An average long-term care, semi-private room today is $81,000 per year. In fact, for many, depending upon where they live and what kind of long-term care facility they may be living in, these expenses actually could be even higher.

One way to manage the potential for long-term care illness is long-term care insurance. These products have gone under some changes over the last several years and there's been some consolidation within the insurance industry, but looking at it as one way to manage long-term care risks. In this case, the costs range from a little over $1,000 a year at age 50 to $6,000 at age 79. The decision becomes, do I pay less for more years, or more for less years? One problem is running the risk of not being insurable if you wait too long, since these are all individually underwritten even if it's a group long-term care policy to an employer.

Certainly, if you look at the cost of the long-term care average semi-private room at $81,000, one year in a long-term care facility would probably be more than the total premiums paid even if you paid those premiums for several years. So, that's at least one way to manage that risk.

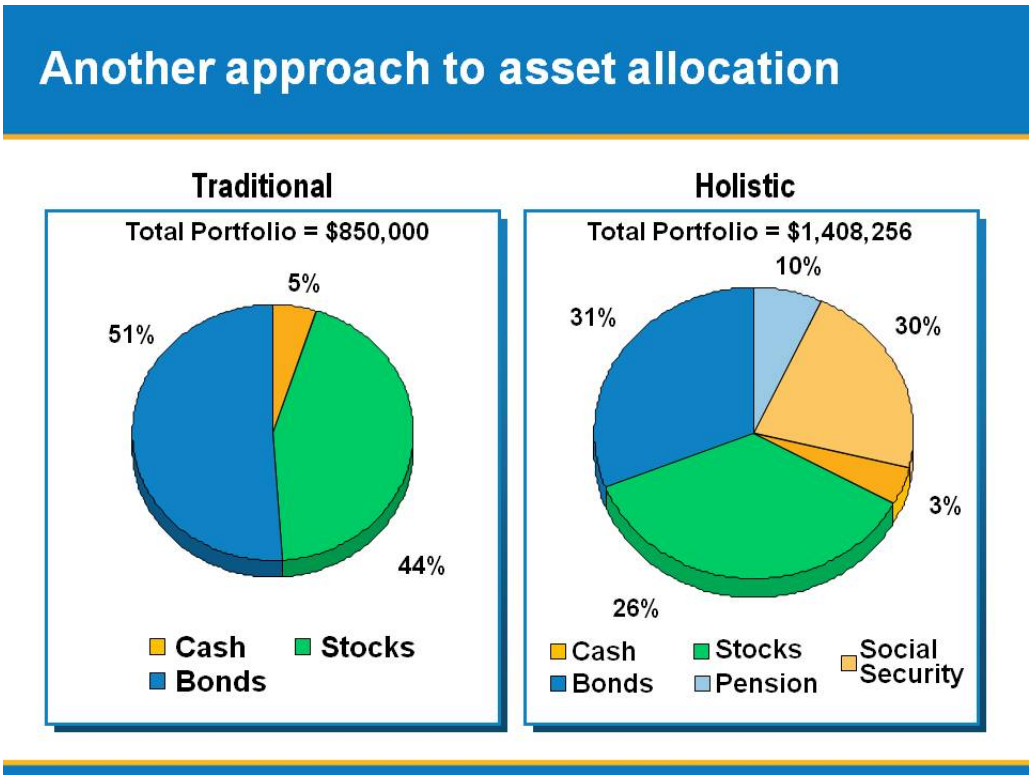
4. Investing risks. We'll briefly talk about three of them:

1. Stock market reluctance
2. The fact that interest rates go down
3. Negative-point-in-time risk.

Not everybody may need to overcome stock market reluctance. If somebody can be conservatively invested and

make their plan work with inflation, everything else and health-care costs risks, that's great, but that needs to again be addressed early on to understand what that rate of return expectation needs to be to make the plan work.

Then there's a holistic asset allocation approach that's kind of an interesting approach to reluctance to risk. So, what do I mean by that? Let's look at this slide.



On the left hand side, a traditional asset allocation portfolio has $850,000 of investments assets: 51 percent is in bonds, 5 percent is in cash and 44 percent is in stocks. As you know, when somebody retires, there is often a little light switch that goes off in his or her head; where they may have been okay and content with 44 percent in the stock market the day before they retired, when that little switch goes off, all of a sudden they're not comfortable with that because they don't have a paycheck coming in and they know this money needs to last. All of a sudden, they're thinking they may need to be more conservative, but in fact, to be able to reach their goals, they may need to stay somewhat close to that allocation, at least for some time.

By using a holistic approach, what we could do is show the client or employee that if you're not retired and have a small pension plan in addition to Social Security benefits, we can add the present value of those amounts in a lump sum to the portfolio. The portfolio now has gone from a $850,000 valuation to a little over $1,400,000. Thirty-one percent is in bonds, 10 percent is made up of the pension, 30 percent from Social Security, 3 percent in cash and 26 percent is in the stock market. Now, keep in mind that we never sold any stocks or stock mutual funds, but because the dollar amount is a percentage of a larger number, $1,400,000 now, the percentage allocation has been reduced from 44 percent to 26 percent.

As far as declining interest rates are concerned, if you look at a $50,000 Treasury Bill back in 1981, the interest rate was almost 14 percent. Now, inflation was really high at the same time, but that $50,000 Treasury Bill produced income of $6,905 per year. There are people that retired back in 1981 that are still alive today, and if they reinvested that one year Treasury Bill every year, their income has gone down from $6,905 to $45 per year at today's rates. So, that's obviously a dramatic example, but it also points out the fact that we can't only be concerned about stock market volatility, but also interest rates as well.

Now to negative-point-in-time risk. If you invested $100,000, averaging 6 percent per year and you would withdrew 6

percent per year, what would your balance be at the end of 10 years? Well, many of you may already be aware that you need to look at this in a slightly different way, but how do you think your clients or employees would answer this question? Well, they're thinking, "I'm going to make $6,000 on my $100,000 with my 6 percent interest rate, and if I withdrew my 6 percent or that $6,000 every year than I should have $100,000 after 10 years." But the real answer depends on two factors: Are there any years where there were negative returns? And when did the losses occur?

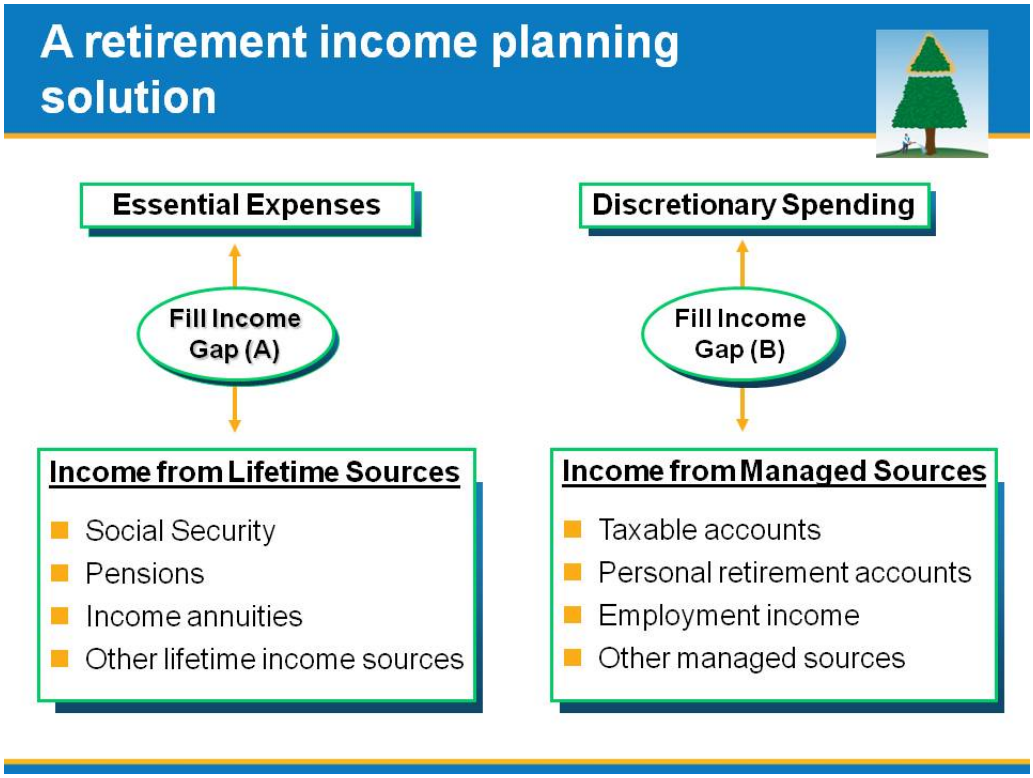
Again, the red flag in this question is the fact that the word "average" is used. Average is often times where we get tripped up. Over a ten year period of time, assume the client or employee had a -15 percent and a -10 percent in the first two years. To get the average 6 percent we were talking about, they'd have to get a highly unlikely 10.63 percent every year for the next eight years. If they still withdrew $6,000 each year per our example, the ending balance after 10 years is not going to be $100,000; it's going to $71,567.

On the other hand, if we just flip-flop when the negative returns happened, the -10 percent and the -15 percent happens in years nine and 10 respectively, instead of years one and two. As a result, it's still a 6 percent average return, but at the end of the 10-year period, they actually have more than $100,000. So, the order of returns matters and to that point, it's important that in the first five to 10 years, returns are actually monitored to see if potential adjustments need to be made.

Many of you probably know individuals who did retire in 2008-2009 when the stock market was going down. What adjustments did they make? Many of them probably actually wound up going back to work because they experienced negative-point-in-time risk. It's not something you can predict, it's just something you need to be aware of and help people make adjustments as may or may not be necessary.

How Prepared Are They for Retirement?

If you've been reading articles on retirement income planning and the various strategies available, meeting essential needs with lifetime income sources such as Social Security, pensions and other sources is one of the strategies that is talked about.



Essential expenses can vary depending on who you are. One man's essential expenses may be another man's

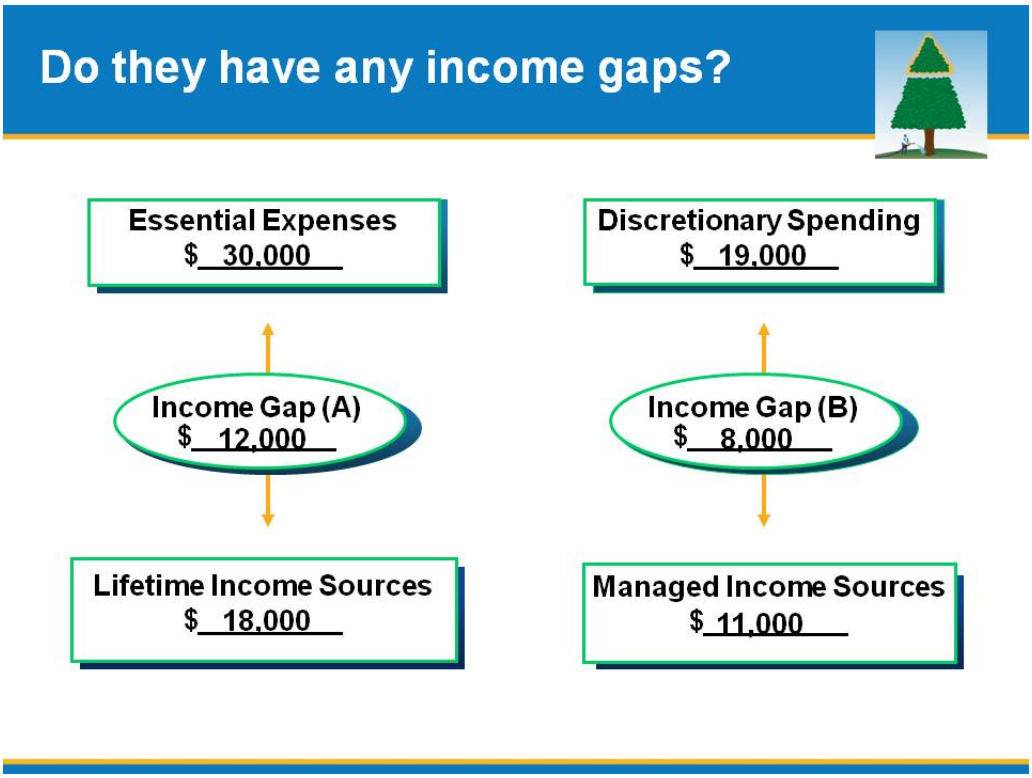
discretionary. I think first and foremost, it's important to come up with a plan to make sure that both essential expenses are taken care of. If there's a gap between what Social Security and potential pension might provide, and what those essential expenses are, then other lifetime income sources come into play.

Then looking at discretionary spending, these are the lifestyle expenses that one has, and using the assets from managed accounts, IRAs, defined contribution plans and other sources, maybe even work for some time (part-time in retirement) can be used to meet those discretionary needs.

Let's say we filled gap A where essential expenses are covered by lifetime income sources, but we still have a gap B between what we have and what our discretionary expenses are. Then, the client or employee has an important decision to make, which is what's more important: retirement itself, or their quality of life in retirement? The answer to that question is really going to help drive what they do next.

You'll see in the articles and the research that this essential and discretionary spending approach is touted as a mutually exclusive strategy. I don't really look at it that way. I think it's just a foundational way of helping an individual see who they should frame their retirement plan to come up with a lifetime spending plan. Ultimately, other strategies that we'll be talking about, such as the 4 percent withdrawal plan, or other systematic withdrawal plans, buckets of money, using annuities and so on, are done within the context of this overall, foundational way of looking at creating a plan.

So, let's just take that idea and use a quick example to see if we can help an individual, at a high level, see where they are today. Say somebody that has essential expenses of $30,000, discretionary spending goals of $19,000, with the lifetime and managed resources respectively giving us a gap of $12,000 for gap A, and a gap B of $8,000. So, if you combine those two gaps, you'll have a combined A and B gap of $20,000.



A back-of-the-napkin calculation, that is not very sophisticated and would ultimately need to be taken to another level in terms of using software or other tools to do a more accurate estimate of how long the money needs to last, can be helpful when sitting down with somebody initially and looking at their situation to see where are we going to go. It assumes that in terms of their investable assets, they're conservatively invested and the investment earnings are going to be equally offset by taxes and inflation.

In this case, we have an individual or couple with $360,000 of investable assets. We use our combined gap of $20,000. By dividing $20,000 into $360,000 their money might last 18 years. Again, it's a very rough estimate, but I think it's helpful in terms of how we're going to take that conversation. Obviously, if somebody is in their 50s, 60s, or even early 70s, 18 years is not going to be enough. If somebody needs 25-30 years, then you're obviously going to want to take that discussion in the direction of, "Okay let's do a more accurate look at what your essential and discretionary needs are and how we're going to match those up to the resources per the model that we showed earlier."

If they have less and it looks like they're going to have trouble making that plan work, the fewer years savings might last indicated the need to use more options to fill those gaps. We're going to be talking about those options in just a little bit.

What Do They Need to Think about Before Making Decisions?

This is where the options come in for filling gaps. Again, going back to our model of essential versus discretionary spending needs and matching those up with lifetime and managed resources respectively and having our gaps, if there are gaps, or a gap, how are we going to fill those gaps? There are many ways to do that.

We've outlined eight:

1. Increasing returns on managed assets
2. Creating additional lifetime income
3. Spending less in retirement
4. Continuing to work full-time
5. Working part time
6. Postponing Social Security and pension so that greater amounts of monthly income can be taken over period of retirement
7. Increasing savings
8. Use of home equity

I'm not going to go through each one of these in detail, but I do want to call out a few.

Certainly, we all know that an annuity creates lifetime income, but there's a big tradeoff in that if you're not one of those that lives longer, you put a sizable lump sum in an insurance product and you don't get you money back, which dilutes the size of your estate. There is another benefit to the annuity, however: You can get not only lifetime income, but you get more income per dollar annuitized than you can for a dollar invested.

Next is postponing Social Security benefits and pensions. Often what happens is when somebody decides to take a Social Security benefit, it's based on the fact that they're eligible to be getting their Social Security benefit. They want to take it at age 62 because they're concerned that Social Security isn't going to be there down the road, they want to get their share and want to start that income so they can retire as soon as they can based on that income.

But there are some of strategies for delaying benefits. If we are talking about spouses, there are combined strategies where one can take the benefit earlier, one can take it later. There can be a huge difference in total income that can be taken from Social Security over a 30 or greater year retirement. For example, they might collect $1.6 million in benefits if they both started at 62 versus $2.4 million if they both waited to age 70. It's obviously a big differential.

The last option I want to look is using home equity. It's often overlooked, I think, in the early stages of retirement because it's not something that's invested in generating income. Imagine a scenario where a couple or an individual

has a $500,000 home, wants to retire, but it's a little iffy if they can make it last. Maybe the money's only going to last into their late 80s, early 90s. Downsizing their home and moving into something a little bit smaller could free up $250,000 that can be used as income in retirement. That may be the additional cushion they need to retire today versus retiring two, or three, or four years from now.

So ultimately, a combinations of options may be necessary.

How Can I Convert Retirement Resources into Income?

The ultimate goal is to create an integrated asset allocation in a traditional sense, and that's something we're going to call income allocation. Income allocation is how we look at those lifetime income sources to fill gap A, and managed income sources to fill gap B. Sometimes, you hear this referred to as product allocation. Going back to our essential and discretionary model, the ultimate decision that needs to be made, "How am I going to fill that gap A?" That's first and foremost. It may be in some cases appropriate to use managed resources and keep them as managed resources to fill gap A. Others again may need to think about creating more lifetime income and again the primary product to be able to do that is with an annuity.

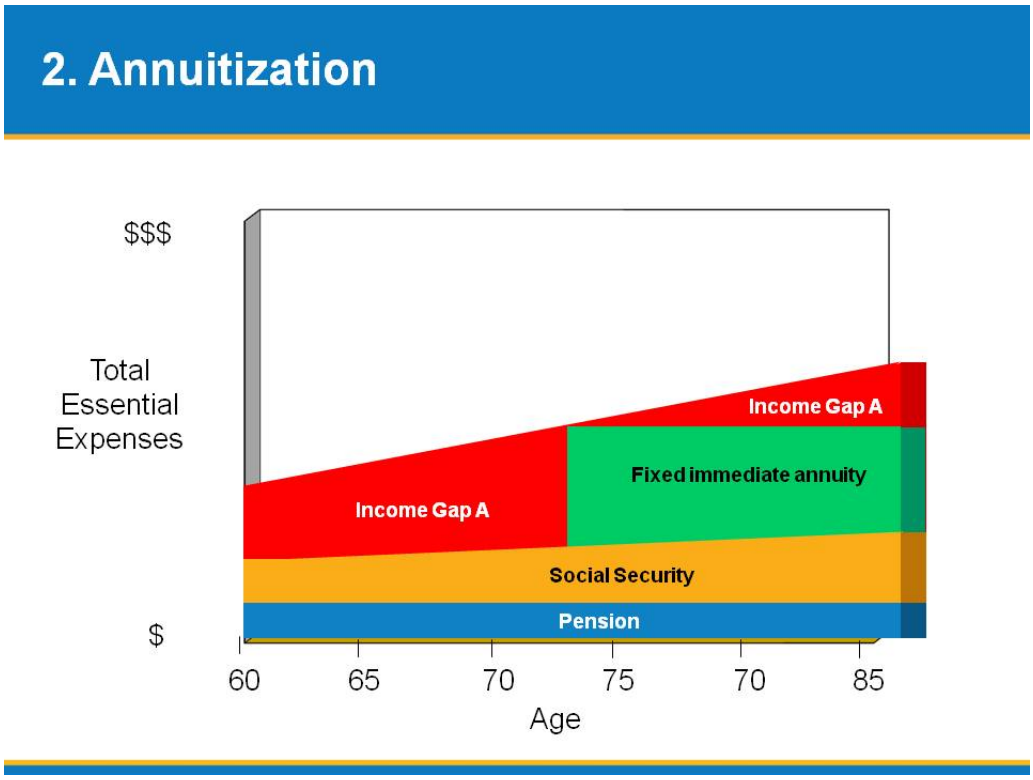
So, we have three general ways, there's lots more in detail/context to each one of these strategies that we could go into, but just at a high level:

1. A systematic withdrawal plan
2. Partial annuitization using immediate income annuity to create lifetime income
3. A combination of the two.

With a systematic withdrawal plan or fixed dollar systematic withdrawal plan adjusted for inflation (SWP) on $100,000 and a 4.5 percent initial withdrawal rate, we would increase the dollar amount of income that we would take from our investable assets each year for inflation assuming 4 percent inflation. As many of you know, there have been lots of studies out there using historical data that show that an initial withdrawal rate of 4-5 percent, adjusted for inflation may be sustainable over a 30-40 year retirement.

Now the key work in this is "may," and because that word "may" is in there, it's not a guarantee, and may not be the best plan. You will also see there are new studies coming out that indicate that based on current market conditions and expected returns going forward, that a 4-5 percent withdrawal rate may need to be more like 2½-3½ percent when you're in a lower-return environment as we are now.

With annuitization, the idea again is to fill that gap A, so that is what this graph now represents. Over to the left, where the red is meeting the X-axis is what your essential expenses are. We're going to use pension and Social Security to fill in some of that red, but we need to get the rest of the red out.



At a certain point in time—could be early on, could be later, could be not just using one fixed annuity, could be laddering fixed annuities—there's lots of ways that we could use annuities to fill that gap.

Remember, with a systematic withdrawal plan only, you're taking out 4.5 percent of assets, but with the combination approach, because you get more income for a dollar annuitized than for a dollar invested, you get more income for the dollars invested in the annuity than you would from the same amount in the systematic withdrawal plan; therefore, you need to take less out of the systematic withdrawal plan to get to your total targeted income. What's the benefit of that? The result of that is that your savings should last longer because you started at a lower withdrawal rate/need to take less from managed assets.

The last product that I want to talk about that also can play a part today in retirement income planning is something called deferred income annuities and longevity insurance. Essentially what they are is a lump sum payment that you give to the insurance company and that's for a promise of guaranteed lifetime income but starting in the future, not starting immediately. So, at age 65, you could put in a lump sum of money that may not start producing income until age 85. This is lower cost than the traditional fixed or single premium annuity and allows the retiree to once again plan to a specific date.

The problem with retirement income planning is that you are planning for an uncertain length of time. When you're in the accumulation phase, you're planning to a date, the date you retire. But once you retire, it's impossible then to plan to a date because you don't know exactly when you're going to die. With these products, these deferred income annuities and longevity insurance, you can say I want to make sure my money's going to last to age 85 and if I get to age 85 and I've still got some time, which hopefully we all do, then that's where the income from these longevity insurance products that starts to kick in and pay off and allows you to get through that last phase. Considering what you're investing and the ultimate income that can't be reproduced, I think it's a pretty cost effective way to plan.

It is also interesting to note that DOL and the IRS have come out with recent regulations to make these products more easily used in defined contribution plans, and that would also lower required minimum distributions at age 70 1/2. I think you're going to see a lot more on these longevity insurance products in the years to come.

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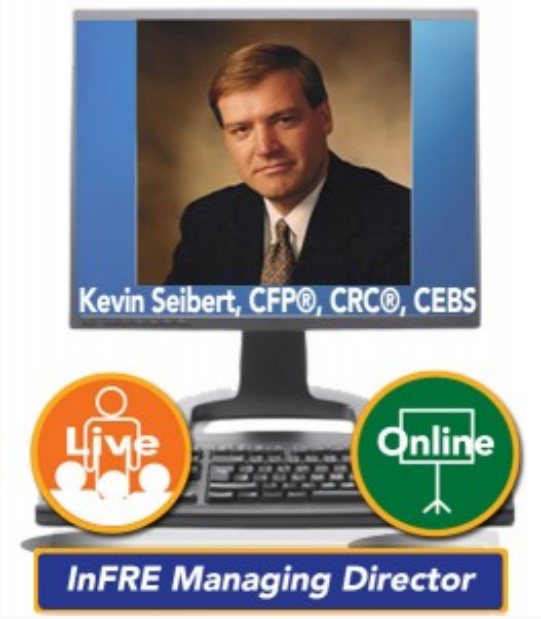
Managing Director, InFRE

Kevin Seibert has more than 30 years of experience in retirement benefits, financial planning, and financial education. He is a leading expert in retirement income planning and co-author of a series of professional education courses on managing retirement income presented to more than 15,000 advisors and retirement counselors since 2004 in live, print, elearning and audio formats.

Kevin is recognized as a Certified Financial Planner (CFP®) by the College of Financial Planning, and is a Certified Employee Benefits Specialist (CEBS), and has been awarded the Certified Retirement Counselor (CRC®) certification from InFRE. Kevin earned his MBA in finance from the University of Wisconsin and received his undergraduate degree in finance from Miami University of Ohio.



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