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Will You Have the Income You Need in Retirement?

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On January 1, 2011, the first of the baby boomers turned 65. An average of 7,000 Americans per day reached this important milestone last year, and more than 75 million boomers will join them by the year 2029. This development is significant for everyone in the United States, because this trend controls a significant portion of our nation's existing wealth. Unfortunately, thanks to relatively recent events, this highly influential segment of the population faces unprecedented challenges when it comes to retirement and, specifically, planning for the income they'll need.

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What You Should Know:

1. Boomers face specific retirement challenges.
As a generation that lived through multiple wars, various political and civil movements and incredible technological achievement, baby boomers have adapted to many challenges. But the ones they face as they enter retirement are daunting:

- Pension plans have all but vanished. The Employee Benefit Research Institute reports that only 3% of private sector employees are solely covered by a defined benefit pension plan, down from 28% in 1979. Even public employee pensions have come under attack in many states.
- The future of Social Security is far from secure, with the federal government already paying out more than it takes in each year.
- The Great Recession hit many investment portfolios hard, and the often wild market volatility that has characterized the recovery so far has not encouraged older investors, many of whom already see the last ten years as a "lost decade."
- People, in general, are living longer, and many don't plan to transition completely out of the work force at retirement age (currently 65–67 years). However, high unemployment and a competitive pool of younger job seekers may alter those plans.

2. The risks can be mitigated.
In planning for retirement, it is critical to recognize and understand the nature of the risks that could threaten the lifestyle you hope to enjoy. The most common of these, and some ways in which your Financial Advisor can help mitigate them, are:

- *Investment Risk* – Historically, stock investments have provided the greatest opportunity for returns, followed by bonds and then cash. But recent equity performance has left some investors leery of stocks. Proper retirement planning will include a solid asset ▸

allocation, informed by an awareness of the rapidly changing environment and an understanding of how to flex (but not disregard) that allocation when the need arises.

- *Inflation Risk* – It can be difficult to recognize inflation's impact over the short-term but, over the long-term, it can decimate a retirement strategy. The increasing cost of living – including basic goods and services as well as specialized needs – has to be accounted for, either by investing in a way that provides incrementally increasing income, or by adjusting retirement goals over time.
- *Longevity Risk* – Planning for a longer life expectancy is a good hedge against the possibility of outliving your assets. Married couples should consider how things might change when one spouse outlives the other. Lifetime income strategies can help protect against this risk.
- *Health Care Risk* – Longer life expectancies often bring extra health care costs. Traditional solutions such as Medicare and Medicaid are helpful, but aren't always enough to meet an individual's needs. Private insurance coverage and appropriate supplementary savings strategies can help.
- *Unexpected Risks* – Legislative or tax code changes, changes in family status (such as a divorce or remarriage) or a sudden need to support other family members can occur at any time. A sound plan won't necessarily have contingency solutions in place for all of these, but acknowledging and discussing them can help you be prepared to respond wisely.

3. The benefits of retirement income planning. Apart from understanding, preparing for and simply having a head start against the risks, participating in a holistic retirement income planning process offers other less obvious benefits:

- Consolidating oversight of your investable retirement assets with one Financial Advisor provides an all-in view of your complete financial picture. This means the advice and recommendations you receive can be truly strategic and long-term in nature in addition to being designed specifically for your situation and needs.
- The process includes an objective, fundamental look at your overall budget and spending behavior. Many investors have not engaged in this kind of self-assessment, and often, it reinforces the importance of realistic goal setting and disciplined balance sheet management.

What You Should Do Now:

If you are approaching or already in retirement, you should sit down with your Financial Advisor and talk about how much money you will need to ensure the lifestyle you want.

The important conversations you will have during the retirement income planning process will help you better understand what *your* retirement might look like, and provide the opportunity to adjust your strategies or goals with the benefit of informed, objective insight from a partner who understands all you want to achieve. ■